STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

MAGIC MID CAPS

How to play the top-performing FTSE 250

Part 1 of a 3-part series

MICROCHIP MACHINES

The super smart kit makers serving the semiconductor boom

Contents

CFA UK Publication of the Year CFA UK Journalism Awards 2019

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

Why markets aren't worried about global debt (yet)

Borrowings have soared in the wake of the pandemic but there are mitigating factors

According to asset manager Janus Henderson global government debt soared by a fifth to a record $62.5 trillion by the end of 2020 in the wake of the coronavirus pandemic.

On the corporate side Janus Henderson reported borrowings up 10% worldwide to $13.5 trillion. So we're looking at a combined number upwards of $75 trillion and rising.

Sometimes numbers get too big for us humans to handle with academic research confirming our difficulty in interpreting numbers once they get beyond levels we encounter in our everyday life.

It's easier to understand what racking up £10,000 on a credit card might mean for you as an individual than working out what the trillions of debt washing around the world right now might mean.

Sometimes this leads to a conflation between household and government and corporate debt which probably isn't that helpful, particularly when it comes to sovereign debt.

Historically borrowings at these levels would mean crippling interest payments for both countries and companies, however an exceptionally low rate environment means that isn't an issue.

Investment bank Morgan Stanley notes that the US is spending less on debt interest today with debt to GDP at a level of roughly 128% than it did in 1981 when the debt to GDP ratio stood at a little more than 30%.

Morgan Stanley strategist Andrew Sheets comments: 'Obvious things can still matter. Across a number of metrics, this is an unusually good moment to borrow money. While we're mindful that "yields are low" has been a steady cry throughout the last decade, today we're seeing borrowing costs, ability and need align in a unique way.'

Sheets notes that not only are the absolute costs of borrowing low but they are also low in 'real' terms thanks to increases in inflation.

'When debt funds an asset (capex, infrastructure, a house), it's likely that the asset's value, at a minimum, rises with inflation. This is why deflation is so bad, and self-reinforcing: if the value of things falls every year, you should never borrow to buy them, which constricts credit and creates even more deflationary pressure,' he adds.

With pre-pandemic concerns about a stagnating economy switching to fears over inflationary pressures Sheets notes the economics of borrowings are improving 'materially'.

He goes on to point out that 'capital markets are wide open' meaning there are few problems with the ability to borrow.

Plus for anyone fearing this could prompt a repeat of the 2007 credit crunch, he notes banks have big capital buffers and are sailing through regulators' stress tests.

Finally he's encouraged that the need to invest in combating climate change is creating an impetus for businesses and governments to spend big after a decade when limited growth deterred investment and in turn the lack of spending undermined growth.

'What's good for the borrower, of course, is bad for the lender. Given valuations and the incentives to issue, investors should favour equities over credit and be underweight government bonds,' Sheets concludes.

That said, not all borrowers are equal – and countries in the developing world cannot afford to be quite so relaxed about mounting debt as their developed world counterparts. Debt might not ring alarm bells for investors until, suddenly, it does. Perhaps when central banks finally begin removing the global economy from life support.

By **Tom Sieber** Deputy Editor

Global M&A activity hits record levels, surpassing last year's total

This year has seen a trend towards bigger deals and bigger premiums

Given the caution with which investment bankers started this year and the low expectations for corporate activity, 2021 has been remarkable in terms of the speed and size of deal-making.

According to Refinitiv, the value of global mergers and acquisitions as of the start of August was $3.6 trillion, slightly more than the amount registered in the whole of last year and an all-time record.

Almost half of that total, $1.74 trillion, involved US companies as targets, the highest total in nearly 40 years. Also, there have been more $1 billion-plus deals than previously as companies bulk up in order to gain market share from one another.

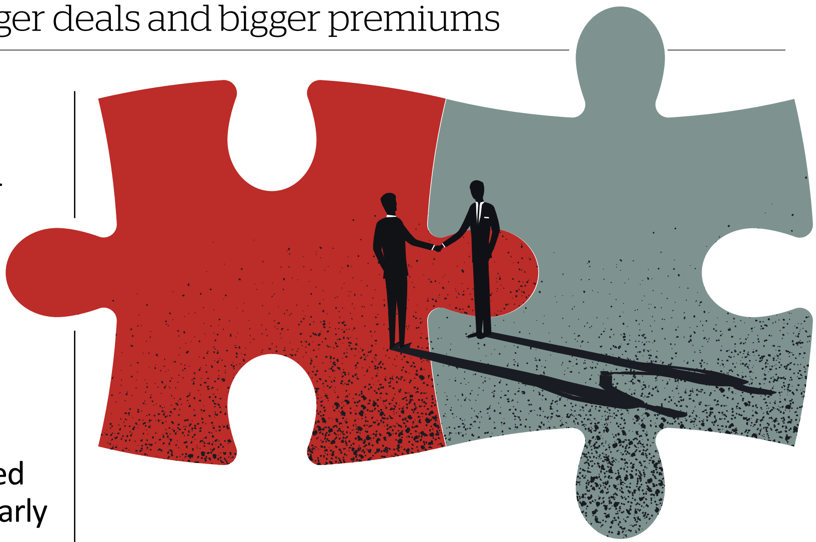
> *The technology sector has been at the forefront with roughly $800 billion in deals*

As usual the technology sector has been at the forefront with roughly $800 billion in deals, while the financial sector has accounted for $442 billion of transactions.

Reasons for the upsurge in activity are threefold. First, many quoted company valuations have remain depressed following the pandemic, nowhere more so than in the UK.

Second, as *Shares* had highlighted well before the pandemic, private equity and buyout firms were sitting on vast sums of 'dry powder' or cash which they needed to deploy.

Third, and a point which had been largely overlooked but which has been a key driver of UK M&A, forthcoming changes in tax laws have made business owners accelerate their plans to sell up and make a greater effort to find buyers.



The last few weeks have seen both an increase in the size of deals in the UK and a willingness for buyers to pay a higher premium rather than risk defeat.

Cobham's increased bid for rival defence firm **Ultra Electronics (ULE)** is a case in point, with the takeout price of £35 per share valuing the business at £2.57 billion or a 63% premium to the stock price the day before its initial approach in June.

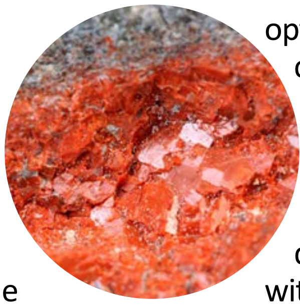
In the same sector, **Meggitt (MGGT)** has seen its market value soar as rumours of an approach from US engineering firm Woodward at 700p in May were superceded by what was thought to be a knock-out bid from Parker-Hannifin at 800p this month.

However, just as Meggitt prepared to publish the terms of the agreed deal, it received an unsolicited approach from another US engineering firm, TransDigm, with a potential cash offer of 900p per share, valuing the business at more than £7 billion or a 90% premium to its market cap the day before the Parker Hannifin offer.

While the board of Meggitt has recommended the Parker Hannifin offer, it has opened its books to TransDigm which has until the close of business on 14 September to make a firm offer. [IC]

What BHP's big news mean for investors

Resources firm is exiting oil and gas, investing in potash and simplifying its structure



There was plenty to unpick with resources giant **BHP's (BHP)** latest set of updates but in our view the ultimate upshot could be positive for the business.

Alongside robust first half results the company announced a plan to merge its oil and gas assets with Australia's Woodside Petroleum, invest in the next phase of the Jansen potash project and to simplify its corporate structure.

The Woodside news ticks a big ESG box, positioning the company so it can benefit from the transition away from fossil fuels by supplying the metals required for renewables and electric vehicle infrastructure.

The fact this is a share-based transaction may disappoint some investors but they will have an option of selling their holdings in the new combined entity after Woodside merges with BHP's petroleum arm, likely in 2022.

The investment in potash looks like it could be the first in a series of steps to bolster BHP's exposure to what it describes as 'future facing' commodities with Jefferies expecting acquisitions in the medium-term.

The scrapping of the dual company structure which has existed in the two decades since the merger of BHP and Billiton in 2001 will effectively see all shareholders transferred to the Australian-based business with the main listing in Sydney and a secondary listing in London. This will see the company exit the FTSE 100 and put the stock outside the remit of some funds and fund managers. [TS]

Pandemic winners become re-opening losers as punters tune out

As revenues drop, high advertising costs eat into profits

THE 46% COLLAPSE last week in shares of online competitions promoter **Best of the Best (BOTB:AIM)** should serve as a stark warning to investors who are still riding the wave of 'pandemic winners'.

The slide came after the firm blamed disappointing new customer registrations and stubbornly high marketing costs for slashing its current year profit guidance to 62% below the market forecast, with a follow-on effect on next year's earnings.

With 'their newfound freedoms, the distractions of major sporting events and ability to travel', even its existing customers were less engaged with its online offering, the firm said.

Like many online businesses, Best of the Best had a banner year in 2020 as millions of people turned to the internet for entertainment during the first and second lockdowns. With restrictions now lifted, punters have drifted away in their droves.

Online contracts-for-difference platform **Plus500 (PLUS)**, another big lockdown winner, saw an even steeper drop in revenue in the first half. Moreover, earnings fell almost 50% in the second quarter as the number of new customers halved while marketing costs jumped over 40%.

The firm won investors over by saying it expected to beat full year revenue forecasts, although the consensus estimate it chose was deliberately low and it recently made an acquisition, which should automatically lift turnover, but it gave no guidance on earnings. We would not be surprised if this former winner also warned in the months to come. [IC]

Wealth management could be answer to banks' profitability problem

Lloyds and HSBC are investing in the space, will Barclays and Natwest follow suit?

The recent UK banks reporting season was characterised by consensus beating results and the resumption of dividends.

However the sectors' earnings were flattered by larger than expected net provision releases. These provisions related to money put aside to cover potential bad debts during the pandemic, and it has been a recurrent feature throughout the banks reporting season.

Many banks found that they were too cautious during the crisis and have been releasing some of the potential bad debt provisions, justified on the basis of an improving macro-economic environment.

Nonetheless, it is important to acknowledge that these are exceptional items and are one-off in nature. The outlook for the UK banks sector is far less rosy than the consensus beating earning headlines would indicate.

The sector faces a structural challenge from the anaemic returns on lending. In response to this **Lloyds (LLOY)** and **HSBC (HSBA)** have sought to increase their presence within the wealth management sector. Looking forward **NatWest (NWG)**, and **Barclays (BARC)** may be forced to follow suit or risk languishing in a strategic quagmire.

Weak returns from lending are a direct result of low interest rates which have compressed the group's net interest margins (the difference between the rate at which a bank can fund its lending and the amount it charges borrowers).

Given the prospect of a continued low interest rate environment, Lloyds' recently announced £390 million acquisition of wealth manager Embark looks decidedly prescient.

Embark Group is a fast growing investment and retirement platform business. The deal bolsters Lloyd's position within the wealth management segment and brings 410,000 customers and £35 billion of assets under management.

Banks' profitability under pressure

Company	Latest net interest margin
Barclays	2.93%
HSBC	1.21%
Lloyds	2.5%
Natwest	1.61%

Source: Company reports

Lloyds is targeting a top three position in direct to consumer self-directed and robo-advice in the medium term. In addition it is aiming for a top three position in the individual pensions and retirement drawdown market by 2025.

HSBC is following a similar strategy to Lloyds, although its "pivot to Asia" strategy means that it has a different geographic focus. HSBC intends to become the leading wealth manager in Asia in approximately five years.

This ambition has been reflected in the group's decision to invest approximately $3.5 billion in its wealth management operations over the next five years. HSBC is on track to create over 1,000 roles in its wealth management business in Asia by the end of this year.

HSBC benefits from its dominant position in Hong Kong. Group profit form Asian wealth and private banking reached $5.1 billion last year. Moving forward a continuing wealth management connection between the mainland and Hong will help.

Lloyds and HSBC have clear first move advantages with respect to diversifying into the wealth management segment. It will be interesting to see if either NatWest or Barclays decide to follow suit. [MGar]

Food ingredients giant picks London for IPO

Asia's Olam International is cooking up a multi-billion pound float

Singapore-based agricultural trading house Olam International has chosen London as the listing destination for its multi-billion pound food ingredients business.

Reportedly looking to raise more than $2.8 billion through the listing, **Olam Food Ingredients (OFI)** would offer investors another play on the trend towards plant-based foods and may even be big enough to qualify for the FTSE 100.

OFI is seeking a premium listing on the London Stock Exchange (LSE) in the first half of 2022, with a concurrent secondary listing in Singapore. London has been selected in part due to investors' deep understanding of the food and beverage sector here.

Active in soft commodity markets including cocoa, coffee and edible nuts, OFI works with some of the world's best-known food and beverage brands, food manufacturers, retailers and food services companies and has established market-leading positions across a range of on-trend, natural and plant-based products.

Mark Lynch, partner at corporate finance house Oghma Partners, said: 'Assuming that the company does qualify as a UK Food Manufacturer, it provides a significant boost to the sector that has lost many former FTSE companies over the last twenty years including, Cadbury Schweppes, United Biscuits, Hillsdown Holdings, Albert Fisher, Northern Foods and Unigate.'

Lynch added that Olam would also offers investors 'a route into the changing world of food ingredients which is seeing an expansion in its opportunities through the growth in demand for plant based foods.' [JC]

Private equity backed Zooplus could pressure Pets at Home

UK pet care specialist may face renewed competitive threat or exit of a major rival

A BID FOR European online pet platform Zooplus by US private equity outfit Hellman & Friedman has positive and negative implications for **Pets at Home (PETS)**.

Zooplus is a direct online competitor in the cut-throat pet supplies market and could thrive under private equity ownership. However, the punchy multiple ascribed to Zooplus also underscores the attractions of a market boosted by the structural expansion in pet ownership under lockdown.

Hellman & Friedman has bid €390 per share for Zooplus, a 40% premium to the undisturbed share price and valuing the pure online player on a punchy 45 times 2021 EBITDA (earnings before interest, tax, depreciation and amortisation.

H&F aims to be a long-term strategic and financial partner to help Zooplus strengthen its position in Europe, which could have negative implications for Pets at Home's online sales should Zooplus make substantial growth-oriented investments at the expense of short-term profits.

Numis Securities concedes the impact of the Zooplus acquisition 'looks to be quite binary' for Pets at Home. Numis expects Zooplus would 'either look to double-down (as it is suggested will be their strategy more broadly) or exit the market'.

Yet either way, the broker views 'the unit economics of online and the unique customer proposition that Pets at Home has built in the UK as providing a long-term shield to their market positioning and profitability'. [JC]

Why 50% share price upside could be on the cards at Quixant

Gaming machine logic boxes offer real growth and margin rebuild potential

Rapid recovery growth, a sharp technological edge and decent pricing power, born in Britain technology company **Quixant (QXT:AIM)** is on the up again after falling from its previous lofty perch.

Quixant is a Cambridge-based developer of logic boxes that control pay-to-play digital gaming machines. Think the one arm bandits, quizzes, bingo, casino games and more that you see in pubs and betting shops and occupy vast halls in large casinos.

The logic box basically acts as the brains behind the games, doing all the complicated mathematics that determine winners and losers, and importantly, calculate pay-out ratios on which operator profits are based.

In full year 2020 results, announced in April, management noted growing positive sentiment and a steady improvement in revenues across the US casino industry.

Las Vegas has lagged other parts of the industry in its recovery from enforced closure during the teeth of the pandemic and Nevada's world famous 'Strip' has suffered more than most because of its reliance on tourism and conventions, but even there Quixant is seeing signs of improving demand.

QUIXANT
BUY
(QXT:AIM) 174p
Market cap: £116 million

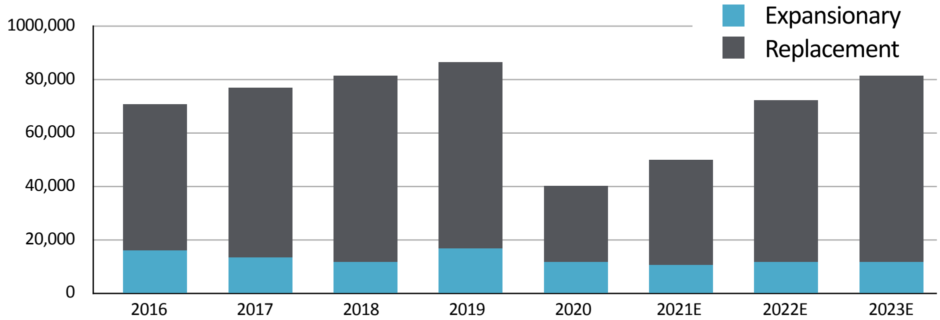
The Associated Press reported in April increases in airport passenger numbers and tourism. March 2021 saw Nevada's casino operators bag house winnings of more than $1 billion for the first time since February 2020.

Data from industry researcher Eilers & Krejcik indicates that slot machine replacement sales have climbed back to 50% of pre-Covid levels.

KEY CUSTOMER DATA

Everi, the $2 billion New York-listed designer and manufacturer of casino games, recently confirmed 'record' second quarter numbers with performance considerably ahead of pre-pandemic levels. It also banked its biggest ever quarterly net profit of $36.2 million, bouncing from 2020's equivalent $68.5 million loss.

TOTAL SLOT MACHINE SHIPMENTS – ON THE PATH TO RECOVERY



Source: Eilers & Krejcik

QUIXANT FINANCIALS RECOVERING FAST (31 DECEMBER, $M)

	2020	2021	2022
Revenue	63.8	69.6	81.8
Adjusted pre-tax profit	1.3	5.6	9.4
Diluted/adjusted earnings per share	-0.0445	0.07	0.12

Source: Canaccord Genuity forecasts

This is great news for Quixant because Everi is its number one customer, supplying the logic box technology for all of its machines. That Everi continues to expand its own installed base points to higher levels of gaming machine unit sales for Quixant.

Outsourced logic boxes are becoming the norm across the vast and competitive gaming machine industry because it frees game manufacturers to concentrate on game design and development, the key selling point that pulls players from one terminal to another. Quixant's all-in-one boxed solution offers a low-cost, high-quality and innovative solution.

Before the pandemic there were an estimated eight million gaming machines installed worldwide, yet analyst believe that something like 90% of them are built by just five top tier manufacturers; a couple in the US, one in Australia, two more in central Europe. These cover gaming machines installed from Las Vegas to London, Monte Carlo to Macau.

To date Quixant's success has been built on supplying smaller game machine makers outside that group. But importantly, management are on cozy terms with all of the tier-1 suppliers top brass, with small scale projects undertaken with each of the big five.

Large scale adoption of outsourced logic boxes is widely believed to be a matter of when, not if, and the impact on Quixant revenue could be significant once that trend reaches a tipping point. For example, in the past Quixant has said that a typical tier-2 contract would be for approximately 10,000 logic boxes, in a good year. A similar tier-1 order would be 10-times that amount.

WIDENING THE CUSTOMER BASE

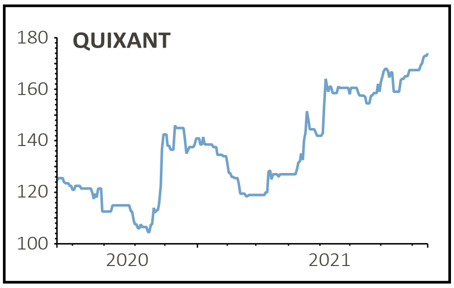
That said, part of Quixant's past problems have been because of its reliance on a small number of large customers. It has been working to reduce this, and management expects sports betting terminals and winning new customers to help. It had $17.4 million net cash on the books at the end of 2020, a nice buffer if there are further bumps in the road.

In the meantime, Quixant remains very much in recovery mode. Unsurprisingly, revenue and profit were smashed last year, running up a $3 million net loss after sales plunged by a third to $63.8 million. This year analyst see an incremental sales recovery but a much faster profit rally as margins are rebuilt.

Operating profit margins this year are predicted at around 8%, from 2.3% in 2020, but there is considerable upside potential over the following years. 2018 margins were 16%. Presuming solid management execution, this should spark several years of rapid earnings recovery, driving the shares much higher.

If we assume that Quixant's recovery remains on track, 2023 earnings of $0.15 (approximately 11p) that imply 25% growth, is not too big a stretch. In 2018 it reported $0.26 of earnings per share.

If we also assume that investors, over time, become willing to pay a higher price for this sort of growth, and push the price to earnings multiple to, say 25, it would imply a 275p share price over the next 12 to 18 months, or 56% upside. [SF]



Protect your spending power with Schroder Income Growth Fund

This trust delivers real growth of income and boasts an unbroken 25 year dividend growth record

Investors seeking a high conviction fund with a track record of attractive total returns should buy **Schroder Income Growth Fund (SCF)**, a portfolio geared into the post-pandemic and UK domestic recovery.

Managed by Schroders' head of UK equities Sue Noffke for a decade, the £222 million cap puts money to work with out-of-favour companies with potential to generate strong future returns and offers and offers an attractive yield of around 4%.

Since its 1995 launch, Schroder Income Growth Fund has raised the shareholder reward every year, with increases in the dividend outpacing the rate of inflation.

REAL GROWTH OF INCOME

Schroder Income Growth targets outperformance by investing in companies that pay dividends that should grow faster than the rate of inflation.

Adorned with 'Dividend Hero' status by the Association of Investment Companies (AIC), the trust successfully navigated the Covid dividend crisis to deliver a 25th consecutive year of dividend increase in the year to August 2020 and can deploy significant revenue reserves to keep growing its distribution, making it a compelling attractive proposition for income-seekers.

Income received during the half to February 2021 fell 46% due to some companies cutting or eliminating dividends. However, with companies reinstating payouts and the portfolio re-orientated towards those firms that are paying dividends, a greater proportion of which are expected to be paid in the second half of the trust's financial year to August 2021, Noffke is confident the trust can build on its dividend growth track record.

GOLD BLEND

The trust's objectives are to provide *real* growth of income, being in excess of the rate of inflation, and capital growth as a consequence of the rising income.

A focused portfolio of 'bottom up idiosyncratic stock picks' according to Noffke, Schroder Income Growth is nimble in size. It can invest across the cap spectrum to deliver attractive returns in any market conditions, whether the growth, value or momentum style holds sway.

Noffke says her approach is to be 'pretty style agnostic in delivering capital returns, albeit with a bit of an income skew.

'There is a very slight value bias over time but quite style agnostic in that I will incorporate both growth situations and value situations into the trust to give a blended approach, which means over time I can deliver very consistent levels of capital returns to shareholders.'

With 44 holdings at last count, positions range from historically reliable dividend payers **AstraZeneca (AZN)** and **Unilever (ULVR)**, to a diverse array of names contributing to income growth.

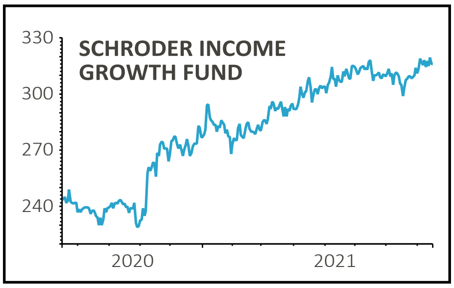
These include cash generative miners such as **Anglo American (AAL)**, returning cash to shareholders through dividends and buybacks, as well as exciting names for future growth including recruitment consultant **SThree (STEM)**. [JC]

SCHRODER INCOME GROWTH FUND

BUY

(SCF) 313p

Market cap: **£221.94 million**



DISNEY
$179.09

Gain to date: 4.2%
Original entry point:
Buy at $171.82, 21 January 2021

OUR POSITIVE CALL on Disney may only have been rewarded with modest gains so far but our faith in the long-term investment case has been further bolstered by the company's latest quarterly release (12 August).

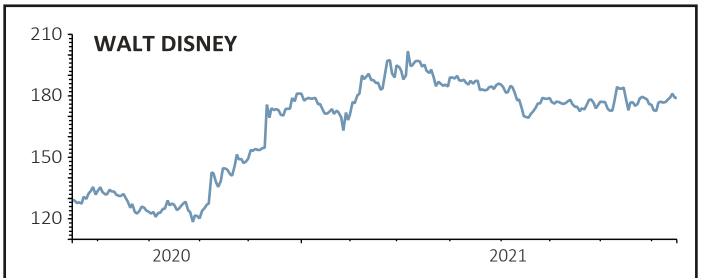
The company reported better than expected earnings for its third quarter as all of its business units turned profitable. Disney also posted revenue of $17.02 billion for the three months ended on 3 July, up 45% year over year.

The company's main streaming service Disney+ unveiled 116 million paid subscribers compared with the 114.5 million expected by analysts.

There's plenty of content to drive subscriber growth further as the company's investment in new programming across its Marvel, Star Wars, Pixar and Disney franchises bears fruit.

At the same time the gradual removal of Covid restrictions is enabling the reopening of its theme parks and resorts.

This has a dual benefit. These are very profitable operations in their own right but also help forge a stronger connection between consumers and its creations, helping to solidify its position as the world's leading entertainment company.



SHARES SAYS:
Disney is a stock to buy and hold for the long run. [TS]

WHEATON PRECIOUS METALS
(WPM) £31.78

Loss to date: 14.7%
Original entry point:
Buy at £37.25, 5 November 2020

IT LOOKS INCREASINGLY like we flagged precious metal streaming company **Wheaton Precious Metals (WPM)** at the wrong time.

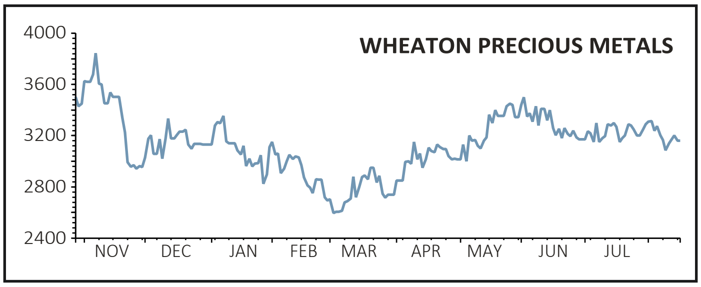
When we said to buy gold was not far off its record highs but it has since lost a lot of its shine as its safe haven and inflation-busting credentials have been questioned.

However, operationally Wheaton has not done too much wrong and recent first half results (13 Aug) delivered a modest beat to expectations. Revenue and cash flow hit record levels of $655 million and $449 million respectively which helped underpin a generous increase in the second quarter dividend to $0.15 per share.

This represented the fourth quarterly dividend increase in a row and an 50% advance on the second quarter of 2020.

As a reminder Wheaton tends to buy precious metal production in projects where this is a by-product to another metal. This allows it to secure this production at a discount to spot prices.

CEO Randy Smallwood tells *Shares* he is 'very bullish' on precious metal prices but 'will not risk shareholders capital on that view' suggesting management's approach to deals will remain disciplined.



SHARES SAYS:
We still like this story despite the hit to sentiment from weaker gold prices. [TS]

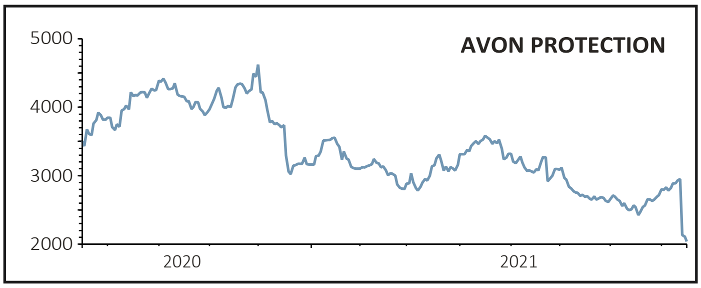
AVON PROTECTION

(AVON) £20.51

Loss to date: 22.1%

Original entry point:

Buy at £26.94, 29 July 2021



SOMETIMES YOU HAVE to hold your hands up. We called defence and protection kit maker **Avon Protection (AVON)** wrong.

We felt the recent issues the company had been facing were a blip. However, a damaging warning on 13 August proved we moved too early, even if we still think the long-term investment case intact.

Perhaps we should have heeded the observation in the original article about a second-half weighting to its results. The impact on performance has come as a result of order delays, supply chain issues and a tight labour market in the US.

The net result is that revenue guidance for the 12 months to 30 September 2021 is reduced to a range between $242 million and $260 million – the consensus estimate was for $277 million.

While the forecast for the September 2022 financial year has been trimmed to $320 million to $340 million (consensus $354.9 million), guidance for 2023 is unchanged for now.

This has the knock on effect of depressing margins to 17% to 18% and seeing cash conversion dip to around 50%.

SHARES SAYS: ↗
The current price doesn't reflect the inherent strengths of the business and we think Avon can recover from these short-term issues. [TS]

MAGIC MID CAPS

How to play the top-performing FTSE 250

Part 1 of a 3-part series

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

There are lots of good reasons why investors should have allocations to the FTSE 250, London's high-flying index oriented to mid caps which provides a purer play on the domestic UK economy than the exporter-heavy FTSE 100.

The FTSE 250 captures those growth stocks that have come up from the small cap ranks and therefore had a chance to establish themselves. And crucially, it can catch these 'second liners' at a point in their growth path before they ascend to the ranks of the blue chip benchmark where rapid expansion can be harder to achieve.

And performance has proved stellar, with the FTSE 250 dramatically outshining the FTSE 100 over the past two decades and rebounding faster than the large cap index since the Covid lows of March 2020. At the time of writing, the mid cap index is testing fresh highs, powered by a combination of reopening optimism, earnings upgrades and the slew of takeover activity that has seen FTSE 250 constituents picked off by private equity, foreign and other buyers.

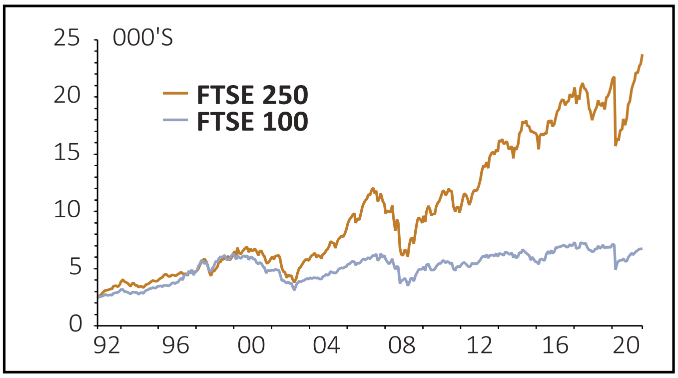
Over three articles, *Shares* will explain what's driving the FTSE 250 and outline the different ways investors can screen for opportunities. Here in part one, we explain why mid cap stocks are so attractive to investors.

We also shine a spotlight on the stocks that carry the most weight in the index today, those that have driven the 250's rip-roaring performance over time, and show how investors can purchase low-cost exposure to the index to boot.

ABOUT THE FTSE 250

Launched in October 1992, the FTSE 250 is a capitalisation-weighted index consisting of the 101st to the 350th largest companies listed on the **London Stock Exchange (LSE)**.

Whereas the global FTSE 100 index dominates the news headlines, the more domestically-focused FTSE 250 has proved the superior performer since its inception.



Offering a dividend yield of 1.88% at last count, the 250's biggest sector weights according to Refinitiv Eikon are financials (36.2%), consumer discretionary (17.8%) and industrials (16.85%). This contrasts with the 100, where health care, basic resources and industrial goods and services are the largest weights, followed by energy, banks and personal care and drug stores.

Over the past two decades, companies that have helped to power the FTSE 250 higher, rising through the mid cap ranks ahead of promotion to the FTSE 100, include the likes of trainers-to-tracksuits retailer **JD Sports Fashion (JD.)** and the online groceries platform **Ocado (OCDO)**, while more recently, the likes of hedge fund **Pershing Square Holdings (PSH)** and discounter **B&M European Value Retail (BME)** have been promoted from the 250's ranks to the FTSE 100, having made shareholders a mint in the process.

FTSE 250 TAKEOVERS

The index is seeing a renewed level of bid interest at present from private equity and overseas buyers, with Brexit done and dusted and debt financing cheap. 'Second liners' taken over or bid for year-to-date operate across a dizzying array of different industries and attest to the sheer quality of the mid cap index.

They range from temporary power provider Aggreko and online bingo operator **Gamesys (GYS)** to hospital group **Spire Healthcare (SPI)** and infrastructure play **John Laing (JLG)**, not to mention defence contractor **Ultra Electronics (ULE)** and asset management services provider **Sanne (SNN)**.

Bidding wars are underway for Bradford-based grocer **Wm Morrison Supermarkets (MRW)** and jet parts manufacturer **Meggitt (MGGT)** too, with Morrisons' market value swelling to £6.83 billion with a Fortress-led consortium and buyout group Clayton, Dubilier & Rice vying for control of the UK's fourth biggest supermarket.

Meanwhile, Meggitt's market tag has soared to £6.47 billion off the back of a premium-priced offer from Parker-Hannifin, since trumped by TransDigm. Another name that has seen competing bid interest is drug inhalation technology company **Vectura (VEC)**, which has just unanimously accepted a controversial takeover offer from tobacco giant Philip Morris. Another exemplar is student accommodation-focused REIT **GCP Student Living (DIGS)**, which has recommended a premium-priced offer at 213p from Scape Living and iQSA.

WHY MID CAPS ARE A MUST

The FTSE 250 offers opportunities to invest beyond the FTSE 100, where exciting mid-sized companies are often below the radar of many investors. Mid cap companies are attractive for a variety of reasons; more established than smaller firms, they are typically profitable and more robustly financed than corporate small fry, and less risky as a result.

Yet they also appeal to investors as they tend to be faster growing than mature large cap counterparts and usually have years of market share gains and sales and profit growth ahead of them. As *Shares* outlined here in June Jean Roche, lead manager of the **Schroder UK Mid Cap Fund (SCP)** and co-manager Andy Brough, refer to the FTSE 250 as the 'Heineken Index' given its potential to 'refresh' portfolios in a way other parts of the market cannot.

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

> *'The FTSE 250 offers exposure to great British businesses with plenty of scope for growth'*
>
> ***Georgina Brittain,***
> *JPMorgan Mid Cap*

Georgina Brittain, who manages investment trust **JPMorgan Mid Cap (JMF)** along with Katen Patel, told *Shares*: 'The FTSE 250 offers exposure to great British businesses with plenty of scope for growth. Recent impressive performance has been driven by a number of factors but, in particular, success with vaccinations and the resurgence in optimism about economic recovery as restrictions have lifted.

'While uncertainty still remains, which may cause some short-term volatility, we see attractive growth opportunities, with FTSE 250 constituents well placed to thrive in a recovery over the long-term.'

Looking out to 2022, Brittain said the FTSE 250 is 'now on a price-to-earnings ratio of 15.8 times, which is slightly above its long run average. However, earnings are forecast to grow 27% this year and 13% next – and we believe our companies can potentially grow faster than this. While we are closely monitoring the impact of global supply chain issues and inflationary pressures, the strength of the economic backdrop is very positive, and the ongoing rush of M&A provides clear evidence of the value seen in the UK stock market.'

WHICH STOCKS MATTER MOST

Analysis of the FTSE Mid 250 Index using Refinitiv Eikon data reveals the index is more diversified than the FTSE 100 in terms of the distribution of weightings to various stocks. So whereas the blue chip benchmark has nine stocks with weightings above 3%, such as **AstraZeneca (AZN)** at 6.44%, **Unilever (ULVR)** at 5.49% and **HSBC (HSBA)** at 4.29%, no one stock accounts for more than 1.5% of the FTSE 250, with nine companies concentrated in the 1%-to-1.5% weightings bracket.

FTSE 250 stock weightings

Company	Weight (%)	Market cap (£billion)
Meggitt	1.5	6.47
Wm Morrison Supermarkets	1.46	6.83
Howden Joinery	1.25	5.61
Dechra Pharmaceuticals	1.23	5.27
Electrocomponents	1.11	4.79
IMI	1.1	4.72
F&C Investment Trust	1.1	4.71
Spectris	1.03	4.33
Direct Line Insurance	1	4.25

Source: Refinitiv EIKON, 12 Aug 2021

As at 12 August 2021, the two stocks with the biggest weights were Meggitt and Morrisons at 1.5% and 1.46% respectively. Hot on their heels were **Howden Joinery (HWDN)**, the up-market kitchen supplier that commands a market value of £5.61 billion. Howdens rode the boom in demand for new houses, aided by Help To Buy and the stamp duty holiday introduced last year, and also profited from the increase in people making home improvements, which has driven demand for the stock.

Other 250 names with considerable index clout include **Dechra Pharmaceuticals (DPH)**, the veterinary pharmaceuticals play that has traded strongly through the pandemic, electronic component distributor **Electrocomponents (ECM)**, a beneficiary of the global reopening, not to mention the UK's oldest collective, **F&C Investment Trust (FCIT)**, a notable index constituent with a 1.1% index weight.

STAR PERFORMERS

In order to identify the names fuelling the FTSE 250's stellar gains, *Shares* has run the data to reveal the best performers over the past three, five and 10 years. It should be noted the lists provided exclude those companies that have been promoted to the FTSE 100 or picked off by predators over these time periods.

Software reseller **Softcat (SCT)**, **Liontrust Asset Management (LIO)** and media firm **Future (FUTR)** are the three best performers on a 10 year basis, having generated spectacular total returns of 2960%, 2790% and 2160% respectively.

Over five and three years, Future, fantasy miniatures maker **Games Workshop (GAW)**, digital transition company **Kainos (KNOS)** and newspaper publisher **Reach (RCH)** have all delivered outstanding total returns to shareholders.

Best performing FTSE 250 firms over three years

Company	Three-year total return (%)
Future	832
Reach	480
Kainos	404
Pets at Home	292
Games Workshop	273
Liontrust Asset Management	245
Ferrexpo	228
Petropavlovsk	197
Greggs	183
Dunelm	176

Source: SharePad, data as at 11 August 2021.

Best performing FTSE 250 firms over five years

Company	Five-year total return (%)
Future	3160
Games Workshop	2260
Kainos	1020
Ferrexpo	696
Liontrust Asset Management	624
Softcat	519
Discoverie	366
Reach	352
Allianz Technology Trust	283
Diploma	280

Source: SharePad, data as at 11 August 2021.

Best performing FTSE 250 firms over 10 years

Company	10-year total return (%)
Softcat	2960
Liontrust Asset Management	2790
Future	2160
APAX Global Alpha	1620
4imprint	1380
Dechra Pharmaceuticals	1140
Sirius Real Estate	1120
Games Workshop	1040
Petropavlovsk	1030
Volution	953

Source: SharePad, data as at 11 August 2021.

*Among their number are the likes of stockmarket newcomer **Bytes Technology (BYIT)**, the software reseller boating a long-term average ROCE of 66.7%*

A QUESTION OF QUALITY

The index is also the domain of some companies with impressive long-term records of generating a high return on capital employed (ROCE), a useful metric in assessing a company's historic profitability and how efficient it has been in using its capital.

Among their number are the likes of stockmarket newcomer **Bytes Technology (BYIT)**, the software reseller boating a long-term average ROCE of 66.7%, followed by market darling Games Workshop with a long-term average of 61.6% and asset manager **Ninety One (N91)** with a 61.3% ROCE.

Other high-ranking names on this measure are the sought-after Softcat, promotional products firm **4imprint (FOUR)**, **Moneysupermarket.com (MONY)** and **WH Smith (SMWH)**. The latter has a long-term average ROCE of 44%, which is exceptionally high for a retailer, although this is flattered by the fact WH Smith leases a lot of its stores in a bid to keep costs low against a backcloth of structural pressures.

FTSE 250 - Highest returns

Company	ROCE Long Term Avg (%)
Bytes Technology	66.7
Games Workshop	61.6
Ninety One	61.3
Fdm (holdings)	58.8
Softcat	58.2
4imprint	57.9
Moneysupermarket.com	46.5
Kainos	45.0
Wh Smith	44.0
Indivior	43.2

Source: Stockopedia, 13 August 2021

LOW COST WAYS TO PLAY

Investors hungry for exposure to the current crop of mid cap marvels might consider exchange-traded funds (ETFs) which track the FTSE 250 index. These ETFs offer a cost-effective way to invest in mid caps without the hassle of having to manage individual investments.

Among the ETFs available is **Vanguard FTSE 250 ETF (VMIG)**, which has more than £3.6 billion of assets under management, meaning it has a very tight bid-ask spread and is also the lowest cost FTSE 250 ETF with an ongoing charge of just 0.1% a year.

Other options include **Xtrackers FTSE 250 ETF (XMCX)**, with net assets of £81.5 million and competitive total expense ratio of just 0.15%, **HSBC FTSE 250 UCITS ETF (HMCX)**, with an ongoing charge of 0.35%, and last but not least, the **iShares FTSE 250 ETF (MIDD)**, with a total expense ratio of 0.4%.

Look out for part 2 and 3 of our analysis of the FTSE 250 in upcoming issues of *Shares*

Investing in microchips through advanced equipment boom

Flagging ASML, Lam Research and other crucial kit providers

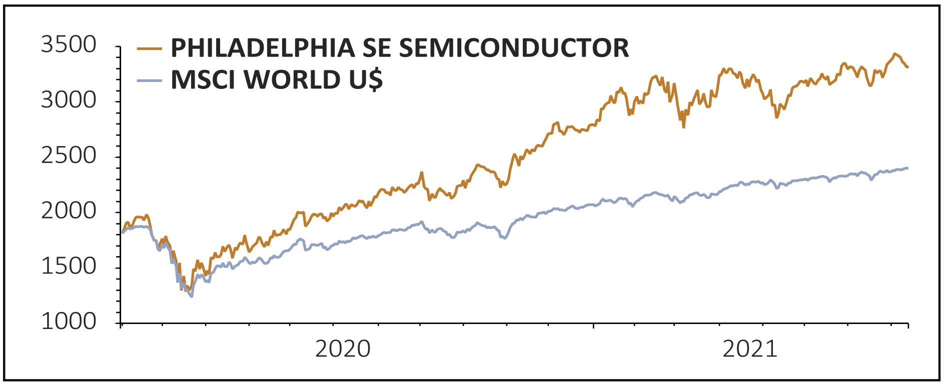
The semiconductor industry has been thrust into the spotlight in recent months as the pandemic put a huge squeeze on manufacturing capacity globally.

This has led to a worldwide shortage of microchips across multiple industries with many leading semiconductor designers and manufacturers warning that microchips could remain scarce into 2022 or even 2023 despite billions being spent on new fabrication capacity.

TSMC, or Taiwan Semiconductor Manufacturing Company, Intel and Nvidia have all said they expected the crisis to drag on for a couple of years, as new plants take time to come online.

This is after TSMC, the world's largest microchip manufacturer, upped its fabrication investment plans from $28 billion to $30 billion this year and plans to invest $100 billion over the next three years.

The Philadelphia Semiconductor index, or SOX offers a good insight into the performance of this part of the market and as the chart demonstrates it has massively outperformed the MSCI World since March 2020.



We reckon both ASML and Lam Research, both of which make equipment to support chip manufacturers, are two excellent way to play the semiconductor boom.

CRANKING UP CAPACITY

Like TSMC, US firm Intel also has substantial capacity investment plans, with high hopes of recapturing the industry pole position by targeting new microchips ranges designed and built on the latest technology.

For example, Intel 4 products, built on 7nm (seven nanometre) substrates, are expected to be production-ready during the second half of 2022 with products likely to ship through 2023. Intel 4 will fully embrace the latest EUV (extreme ultraviolet lithography) technology and aim to increase performance per watt by 20% and pack more transistors into the each semiconductor.

2024 will see 20A 5nm chips emerge using a new transistor design. ‘We understand that this is similar to the gate-all-around design of Intel’s foundry competitors such as TSMC and Samsung’, explain analysts at investment bank Berenberg. Industry speculation suggests that Qualcomm, one of the world’s leading chip designers, could switch to Intel foundries for 5nm technology.

Such hefty industry investment in fabrication expansion promises a sharp rise in advanced chip manufacturing equipment demand.

Global sales of semiconductor manufacturing kit are forecast to surpass $100 billion next year for the first time ever, according to forecasts from industry body SEMI, following a predicted 34% jump in 2021 to $95.3 billion.

In 2020, SEMI says $71.1 billion was spent worldwide on microchip manufacturing equipment.

CRUCIAL ADVANCED EQUIPMENT

What does seem clear is that leading equipment makers could enjoy bumper revenues and profits through the next few years. ‘Intel’s roadmap provides capex visibility, positive for semi equipment industry players,’ say Berenberg analysts. They name ASML, ASM International, Applied Materials, Lam Research and KLA Corp.

Dutch company ASML, for example, has been at the bleeding edge of lithography technology for decades and its $150 million a pop extreme ultraviolet machines are essential bits of kit in any semiconductor manufacturing facility, known as fabs.

‘We believe Intel’s detailed roadmap confirms the importance of ASML’s high NA EUV tool for making leading-edge chips,’ say Berenberg analysts. ‘In addition, the demand of EUV will keep increasing at Intel because of its incremental insertion of EUV tools over the coming years.’

Berenberg are not alone in championing ASML’s investment attractions. ‘We continue to prefer semi cap equipment to chipmakers near term; we prefer ASML among the group based on pricing power,’ Morgan Stanley wrote in a note to clients last month.

‘While elevated multiples are a common and legitimate concern that we encounter around our positive ASML view, the magnitude of potential upside still appears meaningful to us.’

Morgan Stanley models €27.4 billion of sales and €23.5 earnings per share for the 2025 full year, ‘equivalent to 10.8% and 17% compound average growth respectively between 2021 and 2025,’ the team calculate.

COMPLEXITY AT THE ATOMIC LEVEL

Making semiconductors is hugely complex and hinges on all sorts of advanced technology and tools that are used to create microscopic features using not only silicon, but a wide range of other materials at an atomic level of precision.

Beyond just silicon, many of these materials are insulators, some of them are electrical wiring for signals, and many require processes with fundamentally incompatible materials.

Silicon Valley-based Lam Research designs equally specialist equipment but its tools are aimed at helping semiconductor manufacturers improve yields, lower costs, shrink processing time and reduce defects on microchips. Customers include Intel, Toshiba, Samsung and Micron Technology.

Lam was traditionally big in memory chips but this is an area booming thanks to the rapid rise of cloud computing, big data, mobile devices and other connected world applications.

Since data storage is the starting point of the digital economy, there is a huge demand for memory chips, particularly the more efficient variety. But technological advancements in areas like in-car electronics, 3D device architecture and advanced packaging technologies are also playing to Lam’s strengths.

By **Steven Frazer**
News Editor

POST-PANDEMIC RECOVERY SET TO DRIVE ASIAN GROWTH

By Pruksa Iamthongthong, Investment Manager, Asia Dragon Trust PLC

Asian markets have become more difficult to navigate. Renewed outbreaks of Covid-19 – coupled with pandemic restrictions, regulatory pressures (notably in China) and concerns about policy tightening, inflation and rising interest rates in the US – have all weighed on market sentiment.

Nonetheless, at Asia Dragon Trust we see many reasons for investors to be positive on the asset class as they look ahead to the rest of the year. Despite Covid-related disruptions, we anticipate strong growth in company earnings.

Continued demand – both cyclical and structural – underpins the technology hardware sector (see 'tech enablers' below) above all, helping to insulate it against headwinds in the second half of 2021.

We expect Asian central banks to keep monetary policy loose for now, underpinning the recovery story. We think vaccination rates will pick up across the region over the next year as supplies come through, enabling Asian and emerging markets to reopen and narrow the gap to developed peers.

Geopolitics will likely remain a source of uncertainty, with US-China tensions showing few signs of letting up. This will add impetus to China's push for economic self-sufficiency, which will present investors with opportunities.

We are positive on quality firms in areas of structural growth in China such as consumption, health care, technology and environmental sustainability. The latter promises much given the potential increase in renewable energy installations, with China committed to carbon neutrality by 2060.

While China's internet sector is working its way through a round of regulatory tightening, we suspect regulators are playing catch-up with innovations over recent years. We're confident they can strike a balance between promoting innovation and achieving their regulatory aims.

In terms of the broader regulatory landscape, we would view sectors that are more aligned to the central government's objectives – such as public and social good interests like healthcare, affordability and availability – as being of relatively lower risk.

More broadly, pockets of Asia's stock market have seen their share prices run up quite a bit. With the potential steepening of the yield curve in the US and its impact on valuations, we remain cautious on growth stocks with little or no profitability that have already rallied hard.

As long-term investors, we're most positive on companies with strong cash flows in line to benefit from structural growth. They will be best placed to weather near-term uncertainties.

Additionally, Asia remains materially under-owned by asset allocators globally, with the region trading at an attractive discount to global markets despite robust earnings growth.

Most companies delivered upbeat forecasts for earnings growth in the latest round of quarterly reporting, and we expect dividends to improve as economies open up further.

Aberdeen Standard Investments

Key investment themes

Aspiration: as Asia's middle class continues to expand, we anticipate growth in premium consumption in areas such as travel, education, financial services and food and beverages.

Building Asia: population growth in urban centres allied to infrastructure needs improve the prospects for property developers and producers of materials, such as cement.

Health and wellness: Asia boasts leading global companies in biotech and medical device technology. We favour companies in contract research, respiratory and sleep care, vaccinations, pharmaceutical and diagnostic products.

Digital future: the increasing integration of technology worldwide provides tailwinds for Asian companies operating in gaming, internet, fintech and tech services like the cloud.

Tech enablers: we anticipate structural growth in established trends such as 5G, big data and digital interconnectivity – and Asian technology supply chains are well-placed to benefit.

Going green: with global policymakers committed to a lower carbon future, we see bright prospects for companies engaged in renewable energy, batteries, electric vehicles, related infrastructure and environmental management. We expect grid parity to be game-changing.

Three hot thematic ETFs analysed

While trackers targeting themes have been criticised there are some interesting products available

Investing in thematic ETFs (exchange-traded funds) is an approach which focuses on predicted long-term trends, enabling investors to access structural one-off shifts that can transform an entire industry.

However in recent months, concerns have been raised regarding the limitations associated with investing in thematic ETFs. These concerns are twofold.

First, thematic ETFs often lack scale in assets. In July 2020 more than half of the 129 thematic ETFs had less than $100 million in assets. Moreover a large number are new, meaning they lack a proven track record.

Second, academic research has suggested that the higher fees charged by thematic ETFs, which are often closer to the 1% charged by traditional funds than the few percentage points charged on vanilla ETFs tracking indices like the FTSE 100, are not justified.

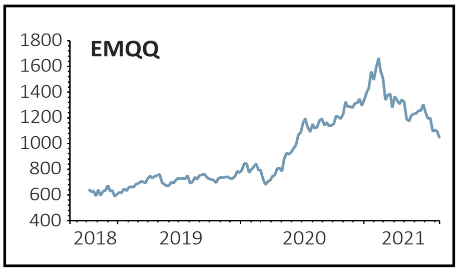
In a Fisher College of Business Working Paper entitled *Competition for Attention in the ETF space* published in July 2021, academic Franceso Franzoni maintains that 'the returns are calculated net of fees, but the difference in performance far outweighs the difference in fees'.

Many thematic ETFs perform poorly because the theme has already peaked before the ETF comes to market. Despite these limitations, properly researched ethical ETFs can be a useful tool for investors.

In this article we look in detail at three products designed to provide investors with access to structural growth opportunities.

These include exposure to internet and e-commerce companies in emerging and frontier markets, a play on a battery storage technologies, and access to companies engaged in orphan drug development. We look at the strengths and weaknesses of these different vehicles.

EMQQ EMERGING MARKETS INTERNET & E COMMERCE (EMQP) £10.93



This is a UCITS compliant ETF domiciled in Ireland. (UCITS billing is a mark of quality assurance that means your ETF conforms to European regulations, designed to protect the general public from unsuitable investment vehicles). The fund gives exposure to the internet and e-commerce companies serving emerging and frontier market consumers. These companies reflect the growth of on-line industries as billions of emerging market consumers become digitally empowered and are composed of search engines, on-line retail, social networks, on-line video, on-line gaming, e-payments and on-line travel. Some of the mainstay companies in the fund include Alibaba, Baidu, Tencent, Naspers and Mercado Libre.

India and China have two of the largest smartphone user bases in the world, yet only 60% and 25% of their respective populations are smartphone users. The untapped billions of consumers in emerging markets have yet to join the digital consumer wave, indicating the upside potential in the regions. Emerging market social media and social commerce companies are just starting to address huge emerging and frontier market audiences.

The fund has an ongoing charge of 0.86% and holds equities for China, Nigeria, Brazil, Russia, South Africa, alongside other emerging countries. The fund tracks the EMQQ Emerging Markets Internet and E Commerce Index that was created to capture this emerging theme

– Top 10 Holdings –	
Tencent	82%
Mercado Libre	52%
Sea	49%
Reliance Industries	26%
Netease	25%
JD Com	24%
Alibaba	22%
Naspers	9%
Pinduoho	7%
Meituan Dianpi	4%

Source: HanETF

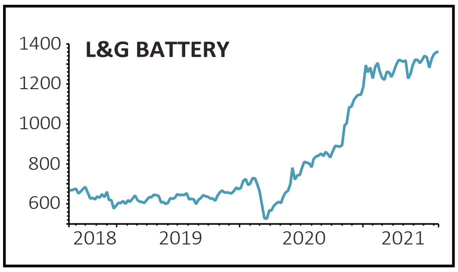
EMQQ PROS:

- Aligned with major global demographic and technological trends that are expanding internet access and increasing affluence across the developed world.
- By focusing on the sources of a company's revenue, EMQQ captures leading internet and e-commerce companies that are often excluded from broad emerging market indices, which select their constituents based on their country of listing.
- In a single trade EMQQ provides exposure to a diverse basket of companies, positioned to benefit from the potential growth of e-commerce and online businesses in emerging and frontier markets.

EMQQ CONS:

- Emerging and frontier markets are subject to a greater market volatility than developed markets.
- Exchange rate fluctuations could have a negative effect on returns.
- The product has a high ongoing charge.

L&G BATTERY VALUE CHAIN UCITS ETF (BATG) £13.94



Significant progress has been made to improve the energy density, price, lifeline and safety of a battery while mitigating the impact on the environment. From applications such as electric vehicles (EV's), and consumer electronics to stationaries like grid storage, battery storage technologies are currently experiencing a growth in investment research and production.

The global market for large and advanced batteries reached $64.1 billion in 2019 and is expected to reach $109 billion by 2024, according to BCC research. Lithium demand from the EV sector is expected to grow at a compound average growth rate of 19.6% at ten times increase in usage over 10 years.

The **L&G Battery Chain ETF (BATG**) seeks to benefit from these trends by tracking the Solactive Battery Chain Index. This looks to capture the performance of companies that are providers of energy storage technologies and mining companies that produce certain metals used to manufacture batteries.

The index follows an equal weighted scheme (meaning the same weight, or importance is given to each stock in a portfolio or index), with the aim to capture the growth prospects of both emerging and established companies. The index is rebalanced semi-annually to maintain diversification and respond to evolving trends and new entrants. The ongoing charge stands at 0.49%.

L&G BATTERY VALUE CHAIN ETF PROS:

- Exposure to a long term megatrend that is radically transforming the way we live and work.
- An index tracking investment strategy that is supported by a team of battery technology experts.
- Aims to capture the outsized growth potential of battery technology.

L&G BATTERY VALUE CHAIN ETF CONS:

- As the index tracks micro, small and medium sized publicly traded companies,

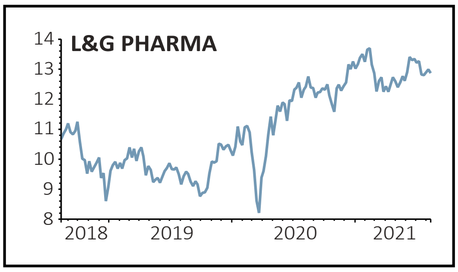
– Top 10 Holdings –	
BYD	7%
Solar Edge	7%
Ecos Energy Enterprises	5%
Pibara Minerals	4%
Sebang Battery	4%
Enersys	3%
Livent	3%
Mineral Resources	3%
Samsung SDI	2%
BMW	1%

Source: Legal & General Investment Management

the ETF is subject to the risk that these companies may be more vulnerable to adverse business and economic events.

- The use of patents may not be adequate to prevent the misappropriation of a company's battery technology.
- Companies may also face competition from companies with more advanced/and or cheaper battery technology. The emergence of new battery technologies that are not dependent on lithium production could reduce the revenues of lithium mining companies.

L&G PHARMA BREAKTHROUGH UCITS ETF (BIOT) $12.97



Pharmaceutical companies have historically not prioritized orphan drug development a drug used to treat, prevent or diagnose an orphan disease. An orphan disease is typically defined as a rare condition which affects fewer than 200,000 individuals.

In the US pharmaceutical companies now benefit from up to seven years of market exclusivity, tax credits of 50% for certain research and development efforts, and fast-track drug approvals. In Europe, pharmaceutical companies benefit from up to 10 years of market exclusivity, tax credits, exemptions from certain licensing fees and EU and national grants.

By 2024, worldwide orphan drug sales are forecast to reach $262 billion. Worldwide orphan drug sales are forecast to grow at a compound annual growth rate (CAGR) of 11.3% from 2018 to 2024, double the rate forecast for the non-orphan drug market.

– Top 10 Holdings –	
Genmab	7%
Biogen	5%
Alexion Pharmaceuticals	4%
EISAI	4%
Alnylam Pharmaceuticals	3%
Ipsen	3%
Kyowa Kirin	3%
Nippon Shinyaku	2%
Roche	2%
BeiGene	1%

Source: Legal & General Investment Management

L&G Pharma Breakthrough ETF (BIOT), tracks the Solactive Pharma Breathrough Value Index. This aims to track the performance of a basket of stocks that are actively engaged in the research, development and manufacture of orphan drugs.

The index follows and equally weighted scheme, with the intention of capturing the growth prospects of both emerging and established companies. The index is rebalanced semi-annually to maintain diversification and remain responsive to market trends. The ongoing charge is 0.49%.

L&G PHARMA BREAKTHROUGH ETF PROS:

- Global exposure to a select basket of companies that are engaged in the research and development of orphan drugs that combat rare diseases.
- Exposure to a diversified portfolio of companies that spans multiple geographical sectors and market capitalisations.
- An index tracking investment strategy that is supported by a team of pharmaceutical experts.

L&G PHARMA BREAKTHROUGH ETF CONS:

- Companies that are actively engaged in the research, development and manufacture of orphan drugs, are vulnerable to clinical trial failures, governmental refusal to grant appropriate approvals and lack of commercial viability.
- The emergence of cheaper or more effective drugs could lead to a decline in the revenues of the selected companies.

By **Mark Gardner**
Senior Reporter

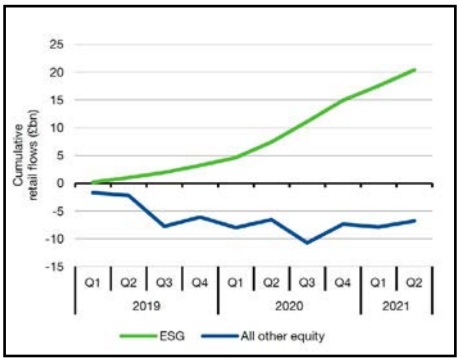
Why renewable trusts trade at premiums despite patchy performance

Money is still pouring into wind and solar plays but their shares have struggled

There is no doubt that funds focused on ESG (environmental, social and governance) factors are still very popular, especially with younger investors, although the UK is still some way behind Europe on this score. A recent note from analysts at Liberum provides some details.

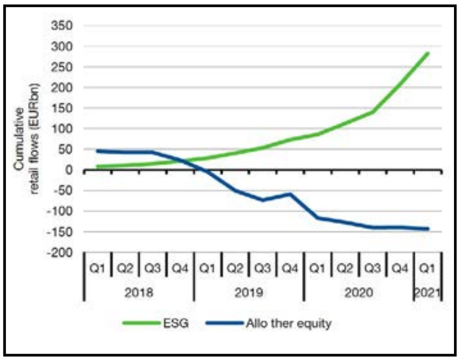
'Investment flows into ESG funds not only outpace other equity fund styles including ETFs and index funds, but in fact outpace all other fund styles combined.

'In the UK, ESG funds have seen net inflows between 2019 and mid-2021 of £20.4 billion, while the all other equity funds put together saw outflows of £6.8 billion', report the analysts.



Source: Liberum

Meanwhile in Europe, they go on to say, between 2018 and the end of the first quarter of 2021 ESG funds saw inflows of €282.6 billion compared to net outflows of €142.8 billion for all other equity funds. Currently, less than 5% of all UK equity assets are managed by dedicated ESG funds against more than 14.4% in Europe.



Source: Liberum

ATTRACTIVE RETURNS

However, one area where the UK excels is in renewable energy infrastructure funds. According to the Association of Investment Companies, there are no fewer than 18 renewable infrastructure trusts managing a combined £12.4 billion in assets.

These combine the appeal of infrastructure investment – in other words real assets, which are a way of diversifying a portfolio away from the stock and bond markets – and renewable energy, which is a big growth area and has plenty of tailwinds.

Thanks to the high visibility of revenues, which are generally paid for out of government spending and are based on long-term contracts, renewable energy infrastructure returns are typically pretty stable.

Dividend yields are also much higher than 10-year or 20-year government bond yields and higher than those available in the wider market, thanks to contracts – and therefore income streams – being inflation-linked. According to analysts at Numis, the inflation linkage can be up to 65% of consumer price increases.

Two thirds of the funds are invested in power generation, with assets under management of just under £10 billion, while the other third invest in energy efficiency and storage systems and account for the balance of assets under management.

The sector is popular with income investors, thanks to yields of more than 5% for many

Most UK renewables trusts trade at premium

Trust	Price	Premium to NAV	Perf year to date
Aquila Energy Efficiency Trust (AEET) IPO'd in June 2021	95p	-2.5%	-6.4%
Aquila European Renewables Income Fund (AERI)	€ 1.08	8.6%	1.9%
Bluefield Solar Income Fund (BSIF)	119p	6.3%	-7.8%
Downing Renewables & Infrastructure Trust (DORE)	99p	0.5%	-1.2%
Ecofin US Renewables Infrastructure Trust (RNEW)	$0.99	0.4%	-2.5%
Foresight Solar Fund Limited (FSFL)	104p	7.6%	1.3%
Gore Street Energy Storage Fund (GSF)	112p	11.2%	8.2%
Greencoat Renewables (GRP)	€1.19	17.2%	1.3%
Greencoat UK Wind (UKW)	134p	8.5%	0.0%
Gresham House Energy Storage Fund (GRID)	121p	14.6%	8.0%
JLEN Environmental Assets Group Limited (JLEN)	107p	12.1%	-5.8%
NextEnergy Solar Fund Ltd (NESF)	102p	2.8%	-4.3%
Octopus Renewables Infrastructure Trust (ORIT)	109p	12.4%	-3.5%
SDCL Energy Efficiency Income Trust (SEIT)	117p	14.0%	9.4%
The Renewables Infrastructure Group (TRIG)	132p	15.7%	3.5%
Triple Point Energy Efficiency Infrastructure Co (TEEC)	107p	9.5%	1.9%
US Solar Fund (USF)	$1.05	7.2%	-3.0%
VH Global Sustainable Energy Opportunities (GSEO)	99p	1.6%	-1.3%
Average		**8.2%**	**0.0%**

Source: The Association of Investment Companies, Shares. Data correct as of 6 July 2021. Price data as of 10 August

investment companies, but many growth investors have also jumped into the sector this year on the back of expectations of juicy opportunities as the UK, Europe and the US ramp up government spending on 'clean' energy projects.

In addition to fundraises for existing trusts, five new companies have listed in the 12 months – **Aquila Energy Efficiency Trust (AEET)**, **Downing Renewables & Infrastructure Trust (DORE)**, **Ecofin US Renewables Infrastructure Trust (RNEW)**, **Triple Point Energy Efficiency Infrastructure (TEEC)** and **VH Global Sustainable Energy Opportunities (GSEO)** – accounting for more than £650 million in new cash raised from investors.

LOSING THEIR APPEAL?

However, on average the sector has gone nowhere in 2021, with individual returns ranging from a gain of 9.4% this year in the case of **SDCL Energy Efficiency Income Trust (SEIT)** to a loss of 6.4% for the **Aquila Energy Efficiency Trust (AEET)** which floated in June.

If the performance of the **iShares Global Clean Energy ETF (INRG)** is anything to go by, it seems someinvestors have moved on. From 1 January the Clean Energy ETF has lost close to 20%, and from its high on 8 January the loss is more like 30%.

Yet – and this is what we really have trouble getting our head around – every trust bar one is trading at a premium to net asset value, even the ones that have performed poorly, with some stretching to double digits.

'HOPE VALUE'

The arguments as to why the sector should trade at a premium to net asset value are that on the one hand the assets it represents – and the opportunities to invest in them – are scarce, while on the other the quality of their income streams means they deserve a premium rating.

To us, it looks as if there is an awful lot of 'hope value' in share prices, which is just as well as many of the trusts still need to raise cash to fund their investments as opportunities come up.

According to Priyesh Parmar and the investment trust team at Numis, renewable energy infrastructure funds gathered £1.2 billion of new money in the first half – including some of the new listings mentioned earlier – and some have continued to raise cash this quarter.

Disclaimer: The author Ian Conway owns shares in SDCL Energy Efficiency Income Trust

Ian Conway,
Senior reporter

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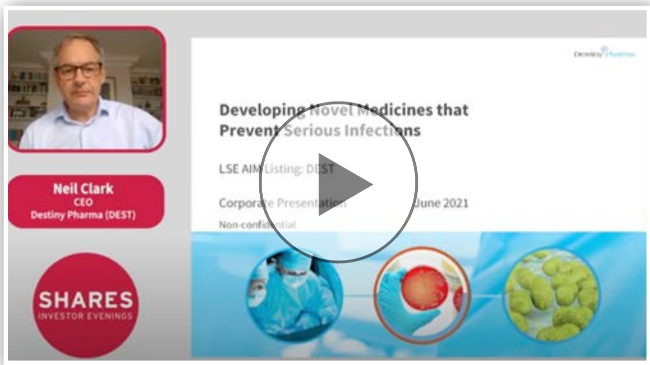
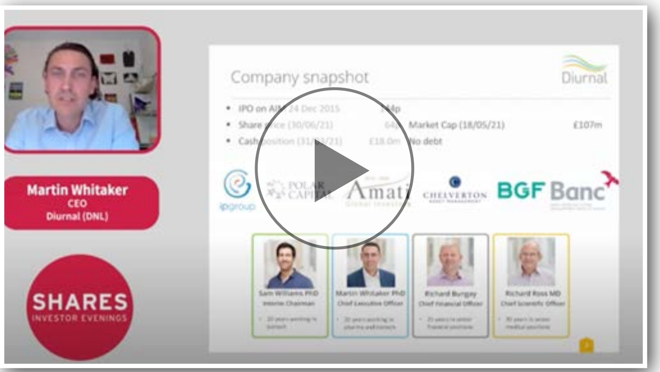


Destiny Pharma (DEST)
Neil Clark, CEO

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



Diurnal Group (DNL)
Martin Whitaker, CEO

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

Kavango Resources (KAV)
Ben Turney, Executive Director

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

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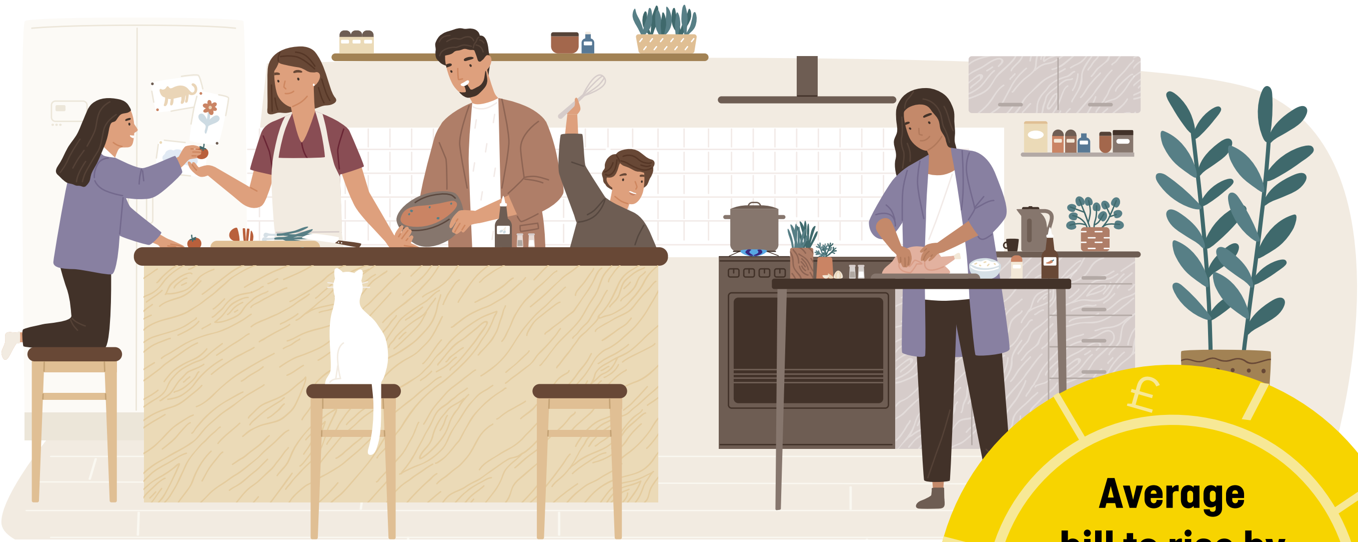
How to beat the gas price hike

Changes to the energy price cap could mean higher bills but there are steps you can take



Millions of households will see their energy bills leap in October, as rising gas prices mean the energy price cap will increase. The rise comes just as winter begins, when everyone's energy use spikes, and is the second hike this year. We explain how the price cap works, who will be hit and how to beat the hike.

WHAT IS THE ENERGY PRICE CAP?

The energy price cap was introduced by industry regulator Ofgem in a bid to stop soaring prices in the energy and gas market for those customers who don't switch to cheaper tariffs. The rate changes twice a year, in April and October, and will rise or fall in line with how energy prices have moved in the previous six months.

WHO DOES IT AFFECT?

The price cap only impacts the bills of customers who are on their provider's standard variable tariff. This is the rate you'll fall onto once any fixed-rate deal you signed up to has ended, and is always more expensive. Often people don't realise they have dropped onto this tariff and that they're paying more than they need to. Ofgem estimates that 15 million people are on these standard or default tariffs.

HOW MUCH MORE WILL I PAY?

The average bill will rise by £139 a year for those customers who pay by direct debit, with an increase from £1,138 to £1,277. If you pay by cash or cheque then your bills will be even higher, by around £93. For those on prepayment meters the hike will be £153, from £1,156 to £1,309. This increase is intended to reflect the rising prices in the energy market, with Ofgem saying energy costs have risen by 50% over the past six months.

Average bill to rise by £139 per year for direct debit customers

However, these figures are for the average household based on average consumption, and are based on someone having a dual gas and electricity tariff – so each customer will see a slightly different increase and a different annual bill, depending on how much energy they use.

The increase comes on

top of a rise in February this year, when prices for direct debit customers rose by just under £100 and for pre-payment meter users rose by £87 – again reflecting rising prices after a fall last year.

HOW CAN I BEAT THE HIKE?

The first thing you need to do is look at a recent bill and check to see what tariff you're on – if you're on the standard variable or default rate you need to take action. The best way to reduce your bills is to shop around for a better deal and switch suppliers.

You can use an online comparison website to see how much you could save, with Ofgem estimating the average customer could save £100 at today's rates by switching – which means an even bigger saving compared to when the energy price cap rise happens in October. All you'll need is a recent energy bill so you know what your usual usage is and you can plug a few more details in online to see how much you could save.

> **Winter fuel payment puts between £100 and £300 towards energy bills if you're over 66**

However, some customers may be in debt to their provider, which can make switching a bit trickier. The good news is that if the debt is up to £500 on gas and up to £500 on electricity you can still switch providers, the new company will just take on that debt and you'll repay them under a repayment plan.

If you don't want to switch or you can't then you should at least call your current supplier and ask for a better rate.

WHAT OTHER HELP IS AVAILABLE FOR MY ENERGY BILLS?

If you're over the age of 66 on 26 September then you'll be eligible for the Winter Fuel Payment, which gives you between £100 and £300 towards your energy bills – the amount varies depending on your age and living situation, but you can check out what you'll get here. You usually don't need to actively claim this, it will come to you automatically once you hit the right age.

Another option is the Warm Home Discount Scheme, which gives you £140 off your energy bills this winter and is paid directly to your energy provider. You'll be eligible for this if you're on certain pension credits or otherwise meet the low income criteria. Check out more information here.

By **Laura Suter**
AJ Bell Personal Finance Analyst

How is the lifetime allowance tested at 75?

Our resident expert looks at the limits and what happens with your tax-free cash

I'd appreciate it if you could explain how the assessment of pension funds against the lifetime allowance/fixed protection amount works at age 75. In particular are pension commencement lump sums added back to the scheme values?
Stephen

Tom Selby
AJ Bell Senior Analyst says:

The lifetime allowance is a cap on the amount someone can save in a UK pension before a tax charge might apply. Where someone exceeds the lifetime allowance, HMRC will levy a charge on the excess to remove some of the tax advantages that individual has enjoyed.

The current UK lifetime allowance is £1,073,100. Chancellor Rishi Sunak announced in the March 2021 Budget that this figure will remain frozen until the end of the current Parliament (i.e. tax year 2025/26).

The lifetime allowance has been changed various times since 2006, creating several 'protection' regimes designed to ensure people close to or over the previous limits were not unfairly penalised. These protections allowed savers to lock-in a higher lifetime allowance – although terms and conditions applied when doing this.

You can read more about how these lifetime allowance protections work here and here.

If you have one of the three versions of fixed protection, provided you don't breach the terms of that protection you'll have a pensions lifetime allowance of:

- **£1.8 million** (Fixed protection 2012)
- **£1.5 million** (Fixed protection 2014)
- **£1.25 million** (Fixed protection 2016)

Tax-free cash (also sometimes officially known as 'pension commencement lump sum' or PCLS) is capped at a quarter of your available lifetime allowance, with any further withdrawals taxed in the same way as income.

For example, someone with a £1.8 million lifetime allowance could take up to £450,000 tax-free.

The amount of lifetime allowance someone has used will be 'tested' when a 'benefit crystallisation event' occurs. These benefit crystallisation events include taking your tax-free cash and choosing a retirement income route (such as annuity or drawdown). A lifetime allowance test will also be carried out on your 75th birthday.

For any pensions you haven't accessed by age 75, this test will simply compare the total amount in your pot to your available lifetime allowance.

If you are in drawdown, HMRC your provider will compare the size of your fund at age 75 to the size when you first entered drawdown (after tax free cash was taken). If your fund is worth more now, this growth will also be tested against the lifetime allowance.

If you have not used your full tax-free cash entitlements by age 75, these will simply be included in the overall size of your fund when the age 75 lifetime allowance test occurs.

For those in defined benefit (DB) schemes, the age 75 test shouldn't be relevant as an income is usually secured by this age.

Where a DB pension is tested against the lifetime allowance, the annual income due at age 75 is multiplied by 20 and then compared to the available allowance.

For example, if someone is entitled to a DB pension worth £20,000 a year, for the purposes of the lifetime allowance this would be valued at £400,000 (£20,000 x 20).

Where a tax-free lump sum is taken, this will be added to the overall fund value and tested against the lifetime allowance, assuming the tax-free cash accrues separately.

If this sum is paid through commuting or giving up part of a pension for cash then the allowance is tested against the full pension before any commutation multiplied by two.

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.

DANNI HEWSON
AJ Bell Financial Analyst

Consumer impact of climate warnings and opportunities for investors

A 'Code Red' for humanity will demand big changes

A 'Code Red' for humanity. That's how the UN phrased its stark warning on climate change and a quick glance at news websites highlight heatwave induced wildfires in California, Greece, and Italy; events that used to happen once a generation, now occurring more and more frequently.

The blame is laid squarely at our feet, human activity. From the cars we drive, the clothes we buy and the fuel that heats our homes our lives have come with consequences and its time to pay the piper.

CONSUMERS TO BEAR THE COST

And consumers will have to pay, whether it's in the switch from petrol to electric vehicles (EVs), replacing gas boilers with hydrogen ones or installing heat pumps or shifting eating habits. With change comes opportunity and savvy investors will be considering what British society and British homes will look like in 10 years' time.

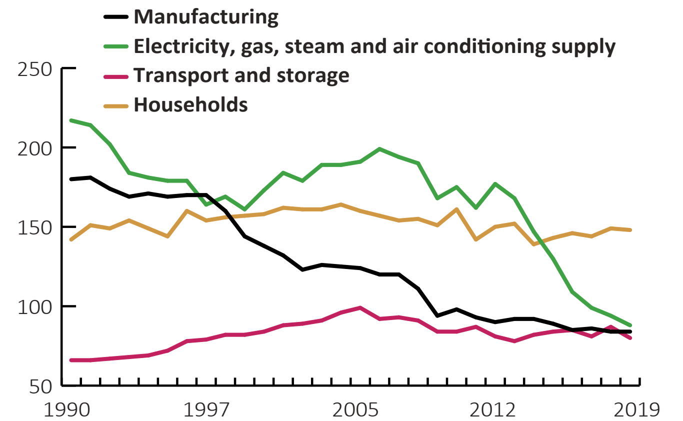
Investors have already waded deep into the pool of ethical investing and the Government's much anticipated green bonds will make it easier for people to use their cash to support environmental change.

But there are other opportunities to explore beyond our borders such as in the US where president Biden's anticipated infrastructure bill is focusing minds.

In the UK, now lockdowns have come to an end, the Government is under increasing pressure to do more than just talk – especially with November's COP26 summit in Glasgow looming.

It has said it's committed to build back better and its 10-point plan for a green industrial revolution puts our homes firmly at its heart. And it's not hard to understand why.

Greenhouse gas emissions for the three highest-emitting industries, and households, UK, 1990 to 2019



Source: ONS. Unit: Mass of air emissions per year in million tonnes of carbon dioxide equivalent (mt CO2e)

Insightful commentary on market issues

DANNI HEWSON

AJ Bell Financial Analyst

EMISSIONS START AT HOME

Our homes are still the highest overall contributors to greenhouse gas emissions in the UK. In order to achieve the 78% cut to overall emissions the Government has pledged to make by 2035, tackling household energy use has to be a priority and a strategy is due to be published in the autumn. But already companies like **Centrica (CNA)** are salivating at the potential opportunities.

During a recent earnings call you could feel the expectation coiled inside the company's new boss Chris O'Shea. And it's not just utilities strategising for a piece of the action, 'Big Oil' is also positioning itself to provide cleaner, greener fuel like hydrogen, though a study out this week has cast doubt on hydrogen's environmental credentials.

Wherever the energy comes from it will have to be cost effective or heavily subsidised for consumers to swallow the change at least in the short-term.

The last time our homes underwent this kind of fundamental change was in the 1970s. Then the switch from coal fires and immersion heaters was as much about status as a lifestyle boon. Then the investment came with an immediate dividend for the consumer, every room could be lived in even in the depths of winter and the open plans we now prize became a possibility.

Today 95% of all homes boast central heating, and the majority are powered by gas. Changing to heat pumps or some other less carbon-intensive method of keeping our homes warm will take every one of the 14 years the Government has projected and a few more besides. Think of the building work, the retail sales and the infrastructure investment not to mention the cost to consumers of installing a new heating system.

THE EV OPPORTUNITY

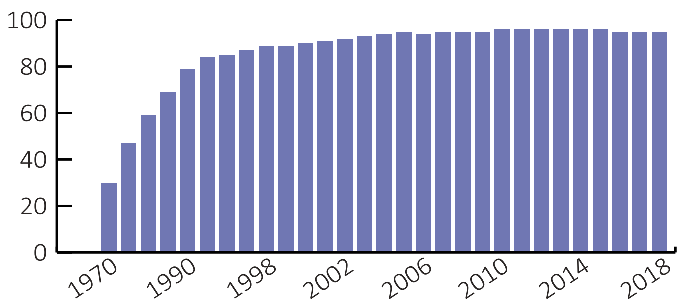
Whilst the switch to EVs is more advanced there is still a long road ahead and like heating, price is a major issue even if competition is beginning to make an impact.

EV ownership has exploded during lockdown and in the July figures for new car registrations almost 30% were electric and 20% more were what's termed 'mild hybrids'.

Tesla has remained steadfastly popular with investors but they're also taking another look at traditional carmakers judging that current issues with semi-conductors shortages are transient and the outlook over the next few years is one of decent growth as these companies take their own slice of the EV pie.

Investors need to be alive to other opportunities that this code red situation might create in what will have to be a pretty rapid reaction on the part of consumers and governments to avert a really serious climate crisis.

% of households with central heating systems in the United Kingdom (UK) from 1970 to 2018



Source: Statista

July 2021 new car registrations

Diesel	8,763
Mild hybrid electric vehicle diesel	6,809
Petrol	55,250
Mild hybrid electric vehicle petrol	16,701
Battery electric vehicle	11,139
Plug-in hybrid electric vehicle	9,900
Hybrid electric vehicle	14,714
Total	**123,296**

Source: SMMT

INVESTOR DIARY

Facing up to the inflation challenge

Taking a cautious approach to the markets against a difficult backdrop

We're pleased to welcome back Malcolm from Edinburgh who is sharing his experience as someone in retirement taking charge of their investments for the first time. This is part five of the series click to read parts one, two, three and four.

In managing my retirement portfolio of 30 shares, currently divided between 12 in the FTSE 100, 13 in FTSE 250 companies and five from the FTSE AIM 100 index, the main challenge in recent months has been reviewing inflationary concerns relative to the possible bounce back effects of Covid recovery.

REVIEWING PERFORMANCE

Faced with such challenges, I have tended towards caution which is why so much of my portfolio comprises slow and steady value shares. I am naturally more bearish than bullish with my outlet for growth mostly occurring through more modest technology-based investments in FTSE, AIM 100 shares; shares that alas have not been very successful of late.

Part of me, of course, would like to be the investor I am not. I would like to have a mix of economic understanding and boldness that would lead me to invest in companies which are already performing at their highest ever share price. To see the potential for further growth and commit to investing on this basis is impressive. The closest I have come thus far is buying **Ashtead (AHT)** at near its highest price; an investment which is so far working well.

In recent months, my reviews of performance have frequently focussed on how well companies have fared over the last two years i.e., before Covid and in recovery from Covid.

My best investments e.g., **Howden Joinery (HWDN)**, **Kainos (KNOS)**, **Persimmon (PSN)**, **DS Smith (SMDS)**, **SSE (SSE)** and **Spirax-Sarco Engineering (SPX)** all seem to have fared better at managing the volatility of the last two years and this is perhaps an indicator of their inherent business robustness.

REACHING FOR FUNDS

To counter my lack of bullishness and in order to make the portfolio more growth focussed and global and diverse in reach, I have recently invested in a few selected funds; **Alliance Trust (ATST)**, **Baillie Gifford Global Alpha Growth Fund (B61DJ02)**, **Fidelity European Trust (FEV)**, **Janus Henderson European Smaller Companies (0747608)** and **Schroder Oriental Income Fund (B5BJ7M1)**.

This has worked out quite well so far. However, distinguishing between the multitude of funds available was a longer and more challenging experience than identifying shares to buy. Therefore, I have invested in large size funds rather than more specialised boutique funds thus far.

Investments in less familiar FTSE 250 companies continue to work well. Take, **Synthomer (SYNT)** a chemical company which supplies aqueous polymers to various markets worldwide. The company appears to have an important function and its share price has been both stable and increasing. **Drax (DRX)**, **Hill & Smith (HILS)** and **IMI (IMI)** have similar distinctive attributes and are companies that I may invest in further, most likely when I can sell off some of my struggling FTSE 100 shares.

IMI has been subject to recent takeover activity with its share price for the present continuing to rise.

A QUESTION OF ETHICS

Another matter to consider has been business ethics and particularly the effects environmental, social, and corporate governance (ESG) factors might have on sustainability and societal impact as well as the future financial performance of companies.

This is something of a mares' nest, for while it is possible to review company statements, it is trickier to define the evaluation criteria you might use to scrutinise business practice when tracking any concerns, you might have e.g., employees' welfare and conditions of service.

At a more primary and perhaps naïve level, you can at least make judgements about whether companies are involved in business areas you support. This might involve ascertaining exactly what companies' own and do. It took me, for example, far longer than ideal to discover that my shareholding in **Associated British Foods (ABF)** included the High Street value clothing and accessories shop called Primark as well as Allinson bread and Twinings tea.

I am unlikely to ever invest in tobacco and gambling although I have shares in the drinks company **Diageo (DGE)**. You could drive a coach and horses through this level of reasoning (i.e., smoking and gambling are problematic, but drinking is ok in moderation), yet it is an attempt nevertheless to review ethics-related concerns in some form of plausible way.

STEADY PROGRESS

So, overall, the last quarter has been reasonably subdued but steady in terms of progress. Every so often I am hit by broadsides such as when the Federal Reserve Bank in the US were mulling over whether to raise interest rates. Such macro developments are not entirely easy to forecast, and it is a dispiriting to watch your entire portfolio plunge in value. A similarly unfortunate day was 'Freedom Day' in England on 19 July.

At these times, it does appear as if you are trying to nurse an ailing car to the nearest garage as you review whether some selective share buying and selling might help matters. However, over time the markets tend to recover and so an investment rather than savings-based approach to retirement planning continues to prove both interesting and rewarding.

WOULD YOU LIKE TO FEATURE AS A CASE STUDY IN SHARES?

We are looking for individuals or couples who can discuss their experience with investing and some details about their portfolios.

Anyone interested should email editorial@sharesmagazine.co.uk **with 'case study' in the subject line.**

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

25 August: Clipper Logistics **26 August:** Hays.

Half-year results

20 August: Afarak, Kingspan **23 August:** BATM Advanced Communications **24 August:** PureTech Health **25 August:** Anglo Pacific, Costain, Grafton **26 August:** Chesnara, CRH, Faron Pharmaceuticals, Hunting **27 August:** BBGI Global Infrastructure, Yew Grove REIT.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

SENIOR REPORTERS: Martin Gamble @Chilligg
Ian Conway @SharesMagIan
Mark Gardner

CONTRIBUTORS Danni Hewson, Laith Khalaf, Russ Mould, Tom Selby

ADVERTISING
Senior Sales Executive Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

PRODUCTION
Head of Design Darren Rapley
Designer Rebecca Bodi

CONTACT US: support@sharesmagazine.co.uk

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