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FOOD FIGHT

Can delivery platforms make profits?

PLUS

Terry Smith has warmed to Amazon, bid talk lifts Sainsbury's, how to invest for your kids + more

Contents

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The questions buybacks pose for investors

Worth examining why a company or trust is repurchasing shares

In recent months the practice of companies buying their own shares has made a comeback. Insurance firm **Aviva (AV.)** was the latest to add its name to a growing list which includes **Diageo (DGE)**, **Unilever (ULVR)** and **BP (BP.)**. On 12 August Aviva announced a £750 million buyback as part of plans for a capital return to shareholders of more than £4 billion.

As well as individual companies, investment trusts periodically purchase their own shares but typically for slightly different reasons.

This flurry of buyback activity raises several posers for investors, including how should they react and what happens to the repurchased shares.

The first question to ask is why a company doesn't have a better or more imaginative use for its money? Perhaps investing or innovating for future growth.

The short answer is that the recent run of buybacks have come through as firms which built up a cash buffer during the pandemic, which is no longer required, look to reward patient shareholders and those which just paused their buyback plans get them back on track.

In Aviva's case it has generated lots of cash by offloading its non-core operations.

There is only one type of buyback where investors really have any control and that's when what is called a tender offer is launched. This gives investors the option of selling some of their holding, whether or not you do so might depend on if you need the cash or how you feel about the investment going forward.

Tender offers are more common when investment trusts look to repurchase shares and often these offers will be pitched at a premium to incentivise holders to sell. This can be a way for trusts, which as a reminder can trade above or below the value of the assets they hold, to narrow the discount to their NAV or net asset value.

Other buybacks are just pursued in the open market, with a company buying stock in the same way you or I would, just on a much grander scale. Here the individual investor is not really being presented with a scenario whereby they need to decide whether to sell.

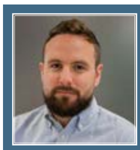
The alternative for a management team to using surplus funds for a buyback is to pay out a special dividend.

Investors who hold shares outside of a tax-efficient wrapper like an ISA would typically pay less tax on selling their shares through a buyback than they would from receiving the cash as a dividend.

By buying in the market, a company can help push up its share price as well as increasing its EPS (earnings per share) and DPS (dividend per share) by reducing the number of shares in issue.

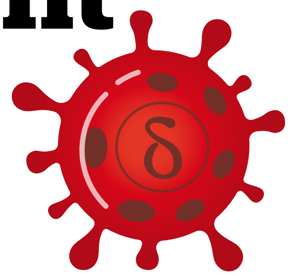
However, this can be a negative too as it can be an easy way for management teams incentivised based on EPS performance to manipulate the figures. Also it's worth looking to see if the company has a policy of buying back its own shares only when it perceives them to be trading below their true value.

Once a company has purchased its own shares it has two main options it can cancel them or it can keep them in its treasury. Shares kept in treasury can be reissued, perhaps to new investors or for employee share options.



By **Tom Sieber** Deputy Editor

Could the Delta variant risk de-railing the global recovery?



'Soft' data from the US and the UK suggest consumers are growing wary

The last few weeks have seen a number of disappointing 'soft' data points in the US and the UK which seem to indicate that the continuing risk associated with the Delta variant is starting to impact consumer decision-making.

By 'soft' data we mean consumer confidence indicators, spending intentions and retail sales numbers as opposed to 'hard' data such as manufacturing output or GDP figures.

As discussed previously, it is possible that millions of micro decisions could end up having enough of an impact at the macro-economic level to throw all of our assumptions about the recovery out of the window.

SOFT DATA GETTING SOFTER

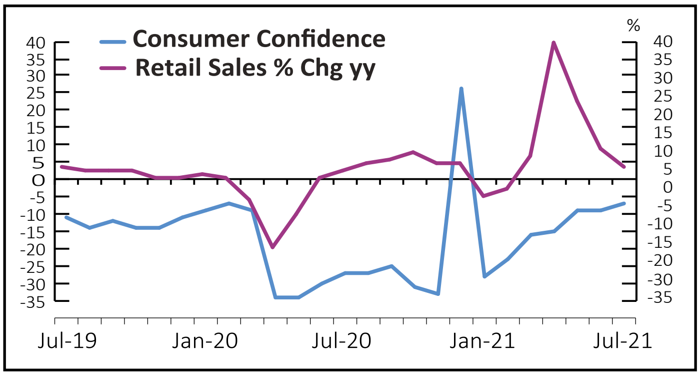
A fortnight ago, the US market was roiled by a sudden and unexpected drop in the University of Michigan's consumer sentiment gauge, which instead of edging up from 81.2 in July to 81.3 as predicted, plunged to 70.2 points, its lowest reading since the end of 2011.

Consumers' views on current conditions tumbled from 84.5 to 77.9, but even more concerning the measure of future expectations slid from 79 to 65.2 points. Many respondents cited Delta-related uncertainty and the potential for more lockdowns for the drop in confidence.

The latest UK consumer confidence survey from GfK was also disappointing, although not nearly as bad as the US survey, coming in at -8 instead of -7 points this month. Although a minus number looks bad, the survey was actually slightly lower during most of 2019 so it has actually recovered from its pandemic lows.

However, when people were asked about their personal financial situation over the next 12 months and their intentions to make a major purchase, both readings were lower than the previous month.

UK Consumer Confidence vs Retail Sales Growth



Source: GfK, Office for National Statistics, Shares
Note: Retail sales data excludes spending on petrol

CONSUMER SPENDING SLOWS

Both US and UK retail sales have disappointed in the last few weeks for a couple of reasons. First, whereas out of necessity we spent money on 'stuff' rather than experiences during lockdown, since reopening people have reverted to pre-pandemic behaviour, blowing their cash on going out.

A survey of consumer activity by research consultancy the CGA covering the period after 'Freedom Day' on 19 July showed 'more confident and varied behaviour than after the end of the first full national lockdown last July'.

The second reason for the fall-off in spending is demand has been brought forward. Many people made their big ticket purchases – be it a new sofa, home cinema system or a Peloton exercise bike – during lockdown last year, and they aren't going to buy another one.

What economists and policymakers need to know is whether the recent dip in confidence and the knock-on effect on consumer spending is 'transient' – a word much used to describe inflation, another concern – or whether it presages a broader economic slowdown. [IC]

Waning copper production could be good for miners

A recovery in prices of the red metal could lift a beaten up sector

The mining sector has been hit hard by the recent volatility in commodity prices amid weaker Chinese economic data and fears the US Federal Reserve is set to start tapering its support for the world's largest economy earlier than forecast.

The FTSE 350 Industrial Metals & Mining sector is still among the top performing year-to-date with a 25.5% advance for the year-to-date according to SharePad data compared with the FTSE All-Share's much more modest 11.4% rise.

In the seven days to 23 August though the grouping was down 5% against a UK market which is broadly flat.

However, recent numbers from **Antofagasta (ANTO)** revealed a glint of positive news, particularly for those companies with copper exposure.

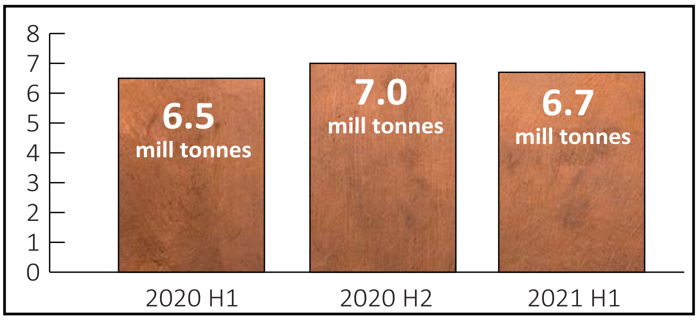
Antofagasta, heavily focused on the metal, downgraded its production guidance thanks to extreme weather conditions in Chile, the world's top producing nation, as it endured the worst of what now adds up to 12 years of drought conditions.

More widely analysts expect a drop in recent levels of output which were lifted by temporary initiatives aimed at maintaining volumes despite Covid-related disruption.

Investment bank Jefferies comments: 'These measures included deferring maintenance and waste stripping, processing stockpiled ore so that finished copper volumes exceeded mined production, deviating from mine plans, and "high grading" in some cases. Now, as ore grades are naturally falling and companies are catching up on maintenance, volumes are in decline, as we had expected.'

Of the UK-listed mining contingent, Jefferies reckons both Antofagasta and **Glencore (GLEN)** can benefit as what it believes to be transitory issues affecting the US and Chinese economies ease. Longer term copper is a critical component of the kit and infrastructure behind electric vehicles and renewables.

Copper production from major producers



Source: Company filings, Jefferies

What next after BHP plans end to dual structure

It may be one of the largest companies on the UK market but **BHP's (BHP)** days in the FTSE 100 are numbered after it announced plans to end its DLC (dual listed company) structure.

A new set-up with a primary listing in Australia will mean it no longer qualifies for membership of the index with the plan attracting criticism from fund managers who in some cases will no longer be able to invest in the stock. **Rio Tinto (RIO)** is another company with a DLC.

As Bank of America observes: 'A DLC is a structure by which two independent companies agree to operate as a combined entity without a formal merger (typically accomplished by acquisition of one vehicle by the other).

'The companies agree to a unified management structure and the businesses are run on a unified basis. In the case of BHP and Rio Tinto, shares in both ends of the DLC rank pari passu (on an equal footing) in terms of rights to cash flows, dividends and votes.' [TS]

The funds looking to shake off the Dog tag

North American funds struggle to keep pace with a surging market

The latest *Spot the Dog* report published by BestInvest shows a sharp decline in the number of funds lagging their benchmark by 5% of more over the last three years in a row.

The number of dismally performing collectives declined sharply from the 150 identified in the previous report six months earlier to just 77. This improvement was due to a surge in previously out of favour and economically sensitive sectors since last autumn.

Leading the group of poor performers in terms of asset managers was HBOS, with £6.85 billion of assets in five funds. The sectors with the highest proportion of underperforming funds are focused on North America, where 22% of funds met the criteria.

This perhaps illustrates the difficulties in keeping pace with an underlying market which is consistently marking new record highs.

While acknowledging the insights provided by the BestInvest study, it is important to highlight that funds data can be misleading to investors.

For example, the three worst funds highlighted within the UK All Companies Sector on a three-year relative return basis are the **Jupiter UK Growth (B54CH94)**, and both the **Invesco UK Equity High Income (BJ04HP8)** and **Invesco UK Equity Income (BJ04HX6)** funds.

The Jupiter UK Growth fund has a relative three-year return of -28%. The performance of both the Invesco UK Equity High Income and UK Equity Income funds has been similarly uninspiring recording a -25% and -21% relative three-year return respectively.

However there are reasons to believe that the performance of these funds may be about to change. The UK market has a natural predominance to sectors that have proved vulnerable to the pandemic including banking and energy. Moreover the UK Government's lackadaisical response to the crisis meant that the UK economy experienced a more pronounced slowdown than other developed economies.

Selected underperformers from the *Spot the Dog* report

Fund	Three-year underperformance
GAM North American Growth	-49%
Schroder Eureopean Alpha Income	-38%
Jupiter UK Growth	-28%
Invesco UK Equity High Income	-25%
Invesco UK Equity Income	-21%

Source: Bestinvest.
Note: Three-year underperformance is the extent to which a fund lagged the market it invests in, not the absolute return delivered by the fund. All data is total return (including dividends reinvested) for periods to 30 June 2021

The successful rollout of vaccines in the UK has significantly improved the economic outlook. It is also worth considering that the Jupiter UK Growth fund is now under the auspices of a new fund manager Chris Smith who took over from Steve Davies in June 2020.

The fund has delivered significantly improved performance over the last six months, so for investors who hold the fund already it may be prudent to remain invested. Similarly both the Invesco UK Equity Income and High Income funds are under new stewardship following the departure of Mark Bennett in May 2020.

Ciaran Mallon and James Goldstone respectively are the new managers at the helm of the Invesco funds, though at present there are no signs of improving performance. [MGar]

Terry Smith finally dips his toe in Amazon

Fundsmith founder buys shares for his personal portfolio

Having told investors and reporters again at this year's **Fundsmith Equity (B41YBW7)** annual general meeting that he was not a fan of Amazon.com, it seems Terry Smith has had a change of heart.

According to regulatory filings, the Fundsmith Long/Short hedge fund – which was set up last summer to manage part of Smith's personal fortune – bought more than £8 million worth of Amazon shares in the second quarter, during which the share price traded between $3,000 and $3,500.

Smith has always resisted adding the stock to Fundsmith's highly concentrated £27 billion portfolio, arguing that the retail business barely makes money and is supported by cash flows from the immensely profitable web services arm.

In his defence, while Amazon shares have soared over the past decade, the giant retail business still only had an operating margin of 3.6% in the second quarter while the much smaller AWS division posted a 28% margin. Despite only accounting for 13% of group sales, AWS provides more than half of group profits.

'If Mr Bezos would float off AWS we'd be very interested, it would be a really good business, but we don't like the idea of owning a company where one business is cross-subsidising a business that's barely profitable,' said Smith at the AGM.

Although he may have softened his view on the firm, we somehow doubt Smith will push for Amazon to be included in the retail fund any time soon. [IC]

Bitcoin tops $50,000 as crypto recovery speeds up

PayPal selects UK for first crypto foray outside the US

BITCOIN SURGED BEYOND $50,000 for the first time since May as crypto prices continued to recover from the massive sell-off three months ago.

In morning trading on 23 August, the largest virtual currency had advanced nearly 2% $50,253.50, having started August below $41,700. Bitcoin topped $65,000 in April 2021.

The move came as PayPal announced it will allow people to buy, sell and hold cryptocurrencies in the UK, the first international expansion of the US digital payments giant crypto service outside of the US, and another hint at wider adoption of the industry.

The overseas expansion suggests that the tech giant thinks the UK is a hub of crypto activity worth tapping into, said Laith Khalaf, head of investment analysis at AJ Bell.

A survey conducted by the investment platform earlier this year found that many UK investors were leapfrogging traditional forms of savings and diving in at the deep end by investing in crypto.

'Our survey found that six out of 10 crypto investors don't have an ISA, and half don't have a pension,' said Khalaf.

Bitcoin topping $50,000 follows news last week that Coinbase will buy $500 million in cryptos to put on its balance sheet and put 10% of quarterly profits into a crypto portfolio.

Coinbase is the largest cryptocurrency exchange in the US. [SF]

DISCLAIMER: Financial services company AJ Bell owns Shares magazine. Tom Sieber who edited this article and the author Steven Frazer own shares in AJ Bell

Why transformed Accrol is flush with potential

Transformed toilet rolls-to-wet wipes manufacturer has increased scale and is ready to clean up in a post-Covid market

Given the potential for the Delta variant to interrupt the economic recovery and with prospects for inflation and slower growth weighing on market sentiment, this seems a sensible time to invest in companies that sell non-discretionary items, products that consumers have to use every day, in economic weather fair or foul.

One such business is **Accrol (ACRL:AIM)**, the toilet roll, tissue and kitchen roll maker that looks well placed for profitable growth in a value-conscious, post-Covid world. Taking share in a market with defensive characteristics, Accrol is benefiting from the recovery of the discount retail channel, while new contract wins with grocers could leave consensus estimates looking too conservative.

Liberum Capital sees Accrol delivering strong growth in the year to April 2022 as the tissue market normalises and has a 95p price target on the stock, implying 87% potential upside from current share price levels.

ACCROL
BUY
(ACRL:AIM) 50.8p
Market cap: **£160.7 million**

ACCROL'S ON A ROLL

Accrol is a private label manufacturer that has restored confidence in its story following a damaging profit warning and share suspension back in 2017.

A complex turnaround has been effected under the leadership of CEO Gareth Jenkins, handed a full in-tray of problems in September 2017. In the period since, he has widened the customer base, made the business more efficient, rebuilt margins and dramatically reduced debt levels among other key actions.

Today, Accrol has established a platform for growth with a whole host of retailers and Jenkins believes 'the opportunities for a relentlessly efficient business, which delivers great-value products, are growing, as the world recalibrates in the aftershock of Covid-19 and consumers continue to move away from brands which offer little value'.

Accrol supplies toilet tissues, kitchen rolls, facial tissues, and wet wipes to leading discounters and grocery retailers across the UK: customers include Aldi, Lidl, Wilko, **Morrisons (MRW)**, **Tesco (TSCO)** and **B&M (BME)** to name a few.

Following the recent acquisitions of Leicester Tissue Company, which brought scale to the tissue business, and John Dale wet wipes in North Wales, which added diversification through a new product range, the £160.7 million cap now operates from six manufacturing sites

Accrol forecasts

Financial years to April	Sales (£m)	PBT (£m)	EPS (p)	DPS (p)
2021 (A)	137	9.1	2.6	0.5
2022 (F)	195	18.5	4.5	0.9
2023 (F)	208	21.4	5.2	1
2024 (F)	220	23.5	5.3	1.1

Source: Liberum Capital

Accrol's transformation in numbers

Financial year	Market share	Adjusted gross margin	Net debt (£m)
2018	11.8%	17.5%	33.8
2019	12.0%	18.2%	27.1
2020	13.1%	22.7%	17.9
2021	15.9%	28.6%	14.6

Source: Accrol full year results presentation

generating revenues totalling roughly 16% of the £2.1 billion UK retail tissue market.

WIPING AWAY THE COMPETITION

Results (14 July) for the year to April 2021 showcased Accrol's resilience and revealed a business transformed, with Accrol delivering further strong margin improvements thanks to operational efficiencies as well as a return to dividend payments with a 0.5p payout demonstrating management's confidence in future prospects.

Adjusted pre-tax profit almost doubled to £9.1 million despite the volatility created in the tissue market by the pandemic. And over the year Accrol's market share rose from 13.1% to 15.9%. Sales and operations were impacted by the pandemic, yet annual revenues still edged 1.4% higher to £136.6 million for a third consecutive year of growth.

INVESTMENTS PAYING OFF

Encouragingly, Accrol has invested to bring the necessary scale and diversity required to push

beyond being just an average tissue supplier. The benefits from the two recent acquisitions and operational efficiency projects are long term and the building of a UK paper mill should help reduce its exposure to cost fluctuations.

With scalable foundations for growth in place, and a strong market position, *Shares* believes Accrol is well placed to benefit from the anticipated recovery in tissue volumes as the effects of the pandemic unwind. Its position is particularly strong amongst the discounters, which have been recovering since Covid-related restrictions were lifted.

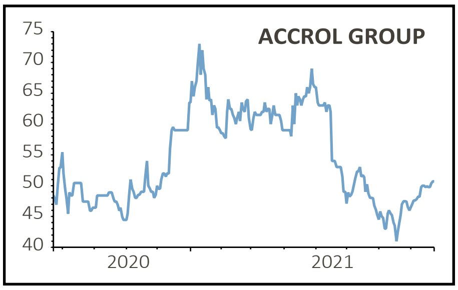
Accrol's longer term growth is supported by the expansion of the major discounters through new store openings, while the launch of select products on Amazon, part of a push to capture the growth in e-commerce, certainly excites.

Input cost inflation is a concern, as is the strong bargaining position of its large customers, although Accrol swiftly and successfully raised prices to recover increased global pulp prices.

And having laid the foundations for growth, Jenkins wants to build a diversified group of size and scale that is focused on the broader private label personal hygiene and household products markets and less exposed to input cost fluctuations.

Accrol has capacity for £210 million of annual revenue from its current facilities, indicating that future cash generation is likely to be strong with relatively low capital expenditure requirements, meaning Accrol will be able to invest in growth whilst funding a progressive dividend.

For the year to April 2022, Liberum Capital sees pre-tax profits almost doubling from £9.1 million to £18.5 million, ahead of £21.4 million and £23.5 million in 2023 and 2024 respectively. Based on estimated earnings of 4.5p and 5.2p for this year and next, the shares are attractively valued on a forward multiple of 11.3, falling to 9.8 times. [JC]



Time to buy into UK small caps with this outstanding trust

JPMorgan Smaller Companies has proven itself a stock-picking winner

Investors who want to tap into the rich seam of UK small cap opportunities will struggle to find a more passionate advocate than Georgina Brittain. The seasoned fund manager has been running the **JPMorgan Smaller Companies Investment vTrust (JMI)** since 1998, and alongside co-manager Katen Patel since 2017.

The smaller companies space has always struggled for analyst coverage yet the manager's of the trust see this as an opportunity, not a hindrance, offering far greater potential to spot for growth being mispriced by the wider market. What JPMorgan Smaller Companies is looking for are between 60 and 120 stocks which the managers believe exhibit superior value, quality and operational momentum characteristics when compared to the wider stock universe.

This stock-led, bottom-up approach to portfolio construction benefits from the vast resources of JPMorgan Asset Management and a variety of quantitative and qualitative tools (including ratios such as return on equity, price to earnings, enterprise value to earnings before interest, tax, depreciation and amortisation, anticipated growth rates, and measures of financial strength), creating a balanced but pragmatic portfolio that would suit most investors. The dividend yield stands at around 1.3%.

Media business **Future (FUTR)**, pharmaceutical services company **Ergomed (ERGO:AIM)** and fancy home furnishings firm **Dunelm (DNLM)** are its current biggest three holdings. **Games Workshop (GAW)**, **CMC Markets (CMCX)**, **Team 17 (TM17:AIM)**, **Luceco (LUCE)** and **SDI (SDI:AIM)** are other top stakes readers may familiar with.

Brittain and Patel are currently having to juggle a torrent of opportunities, saying that the opportunity for UK investors away from the blue-chips is, at this point, like nothing Brittain has seen before in her lengthy career. 'We are in sell to buy mode, literally crawling through the portfolio looking for things we can bear to let go so we can raise money to add others,' she said.

Performance has been impressive despite the UK remaining stubbornly out favour with many investors since the Brexit vote in 2016.

JPMORGAN SMALLER COMPANIES INVESTMENT TRUST

BUY

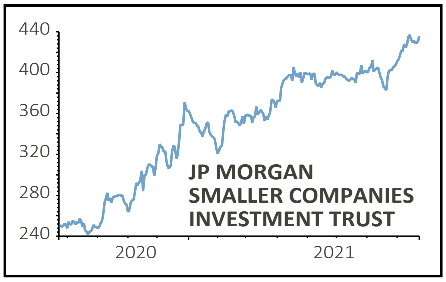
(JMI) 436p

Trust size:

£356 million (net assets)

JPMorgan Smaller Companies has generated net asset value (NAV) and share price total returns of circa 103% and 125% respectively over the five years to 20 August 2021, representing strong outperformance of the Morningstar UK Smaller Companies peer group weighted average performance, with equivalent NAV and share price total returns of 62.7% and 72.7%, yet the discount to NAV remains nearly 6%.

The trust's charges are not overly steep, with ongoing charges of 1.01% at a slight discount to the unweighted average of the AIC UK Smaller Companies sector of 1.08%. This is inclusive of management fees of 0.75% of the first £200 million on gross assets and 0.65% thereafter. [SF]



SAINSBURY'S

(SBRY) 332P

Gain to date: 39.5%

Original entry point:

Buy at 238p, 14 January 2021

WHEN WE RECOMMENDED **Sainsbury's (SBRY)** back in January we were attracted by the valuation and its robust sales performance over the Christmas trading period, which suggested the firm's investment in its online operation in particular was bearing fruit.

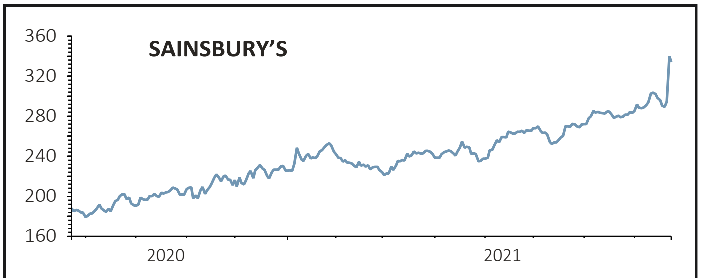
Also, the Argos non-food business put in a strong showing thanks to its success in converting in-store shoppers into online buyers during the pandemic, vindicating the controversial decision to close more than 400 physical shops.

The shares have seen steady buying over the summer as overseas investors looked to scoop up UK stocks trading at a discount to their US and European counterparts.

Meanwhile, the firm has outperformed its rivals, increasing its share of the UK grocery market from 14.9% this time a year ago to 15.2% currently, according to consultancy Kantar Worldpanel.

Moreover, sales in the first quarter to the end of June were sufficiently strong for the firm to upgrade its full year earnings forecast, which on paper could mean an increase in the dividend payout.

More recently, the M&A activity elsewhere in the sector has highlighted Sainsbury's attractive valuation and bid talk has resurfaced, with suggestions US private equity firm Apollo, which has previous form in bidding for UK supermarkets, could be lining up an offer.



SHARES SAYS:

We think Sainsbury's strong run has further to go. [IC]

MARSHALLS

(MSLH) 771P

Gain to date: 20.7%

Original entry point:

Buy at 638.5p, 25 February 2021

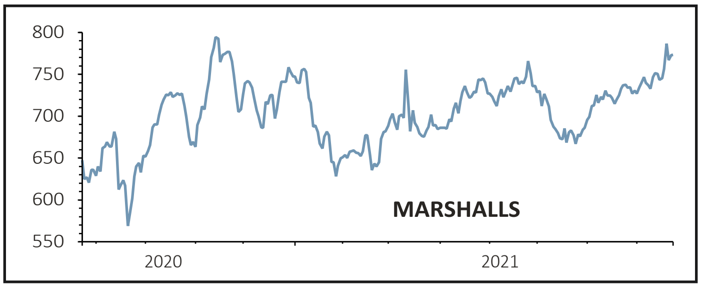
OUR BUY CALL on building products group **Marshalls (MSLH)** has already delivered the same return in six months as the shares normally generate in a year, thanks to strong trading across its two primary divisions.

Sales to the public sector and commercial market were up 40% in the first half to June as the new build housing market continues to grow and the firm wins a greater share of public works, courtesy of its collaboration with architects to incorporate its products from the design stage.

Meanwhile, sales to the domestic market jumped 57% as the repair, maintenance and improvement market continues to experience high levels of demand. Many households have more disposable income due to not commuting and are spending more time at home so they are happy to spend money on improving their outdoor space.

According to chief executive Martyn Coffey, the current 21-week order book with the firm's installers is a record and there is no sign of the RMI market slowing any time soon.

As a result of this continued strength of demand and positive trading in its end markets, the firm has raised its earnings guidance for this year and next year, spurring yet another round of upgrades from brokers.



SHARES SAYS:

We're sticking with our call on Marshalls and would add on any weakness. [IC]

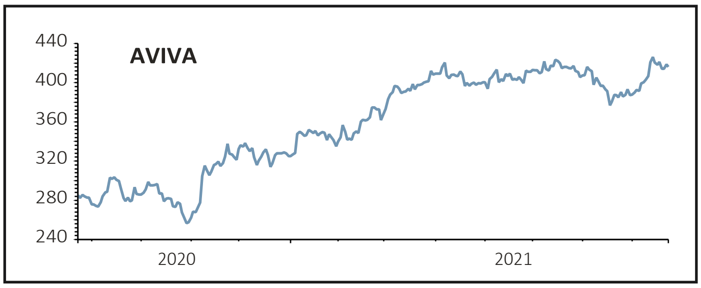
AVIVA

(AV.) 419P

Gain to date: 36%

Original entry point:

Buy at 301p, 17 September 2020



GIVEN THE 36% return to date on our buy call on **Aviva (AV.)** investors may be tempted to lock in profits. However we believe that the share price has further to run and continue to be positive on the shares.

This positive stance is based on three factors.

First, Cevian Capital a Stockholm based activist investor disclosed a 4.95% holding in Aviva in June. Having proved successful in its push for a big return of capital from the proceeds generated by non-core business sales, Cevian looks set to hold management's feet to the fire on costs.

Second, at the recently announced first half results Aviva announced, as discussed, its intention to return £4 billion to shareholders. According to analysts at JP Morgan this is likely to act as a catalyst for a re-rating of the stock moving forward.

Third, the potential disposal of the Aviva Investors division could also crystallise some value. There are two reasons to believe this may be a possibility.

The unit is peripheral to the group's overall profitability and the majority of clients are in house.

SHARES SAYS: ↗
Still a buy. [MGar]

FOOD FIGHT

Can delivery platforms make profits?

By **Steven Frazer**
News Editor

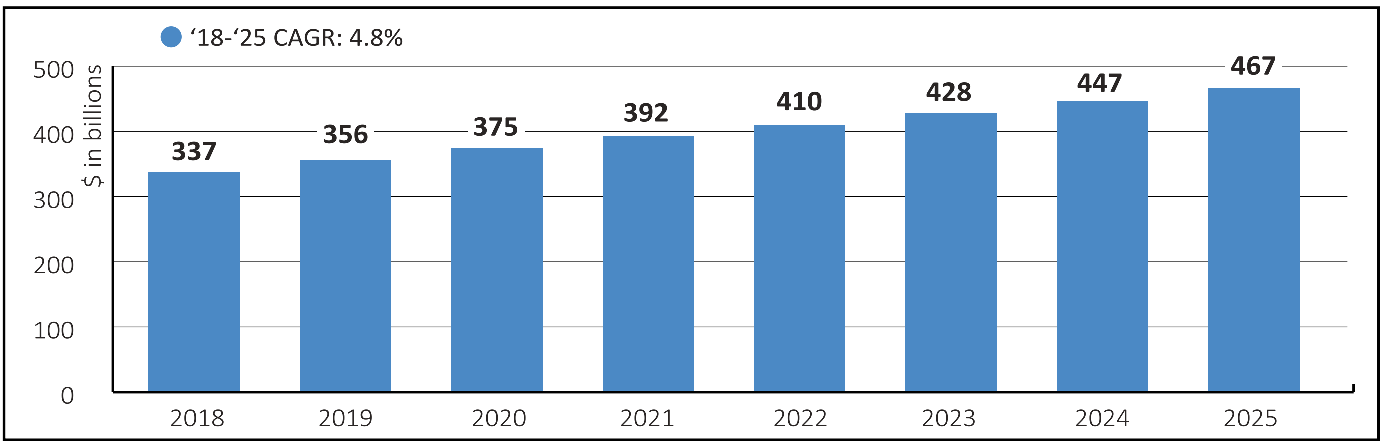
The growth potential for online food delivery is massive, given an annual $350 billion restaurant spend in the US alone.

Yet investors should tread carefully, there are challenging dynamics that have led to a cash-burning contest among competitors, such as UK-listed pair **Deliveroo (ROO)** and **Just Eat Takeaway (JET)**.

Investors have followed diners into the online food delivery space as the rise of platform apps makes it easier for consumers to chow down on takeaways.

According to the latest data, around two-thirds of Americans now order food delivery online, and growth opportunities are vast given extremely low penetration of the substantial US and global restaurant spend, including fast food.

A $350 billion addressable market for US food delivery

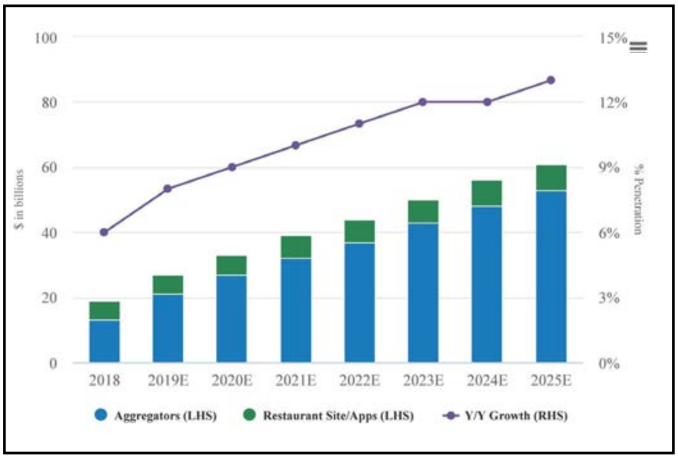


Source: Morgan Stanley Research

CASH BURN BATTLE

Headline growth numbers are enticing but dig a little deeper and you'll find a more nuanced story. On one hand, online food delivery spending in the US could grow at an eye-catching 18% annually, jumping from 6% penetration last year to 13% in 2025, according to Morgan Stanley estimates.

Online delivery penetration could rise from 6% (~$19bn) in 2018 to 13% (~$60bn) in 2025



Source: Morgan Stanley Research

But the sheer scale of that opportunity has led to a cash burning promotional battle as leading platforms chase diners and orders. This food fight has pressured potential earnings and made a high-growth story far less appealing.

Berenberg analyst Sarah Simon in a recent look at Deliveroo commented: 'Particularly in the UK, Deliveroo faces aggressive competition from Just Eat Takeaway, which has pledged to do whatever it takes to maintain leadership of the market, and to regain share in London. Grab, Glovo, Uber Eats and Delivery Hero are also competitors, though to a lesser extent.'

The reason firms are grappling for market share is that most observers reckon its only by having a highly dominant share of a market that a delivery platform can generate sustained profit.

In a report from Morgan Stanley Research last year, the investment bank's US Internet and Restaurant teams detailed the state of online food delivery and outlined various scenarios that could help both aggregators and restaurants capitalise on the growth of online spending.

> *The total addressable market for online delivery is set to grow from $260 billion in 2017 to possibly $470 billion by 2025*
>
> ***Morgan Stanley***

'Consolidation and rationalisation among food delivery aggregators will be key to improving, and arguably generating, higher overall profitability,' said Brian Nowak, one of Morgan Stanley's internet industry equity analysts.

In 2020 and beyond, 'a rational environment with lower promotional activity and ad intensity coupled with improvements in delivery efficiency and customer service will be key to improved earnings,' Nowak stated.

Easier said than done. Just last month a study showed that the number of temporary delivery drivers available for shifts had fallen by over a quarter as thousands return to their pre-pandemic professions in hospitality and retail.

Delivery jobs were a lifeline for many jobseekers during lockdown, as the UK's hospitality and non-essential retail businesses closed and consumers did more online

shopping than ever before, but as lockdown restrictions ease, 'many of the temporary drivers who kept Britain moving in its time of need are boomeranging back to their old jobs,' said Jack Beaman, CEO and co-founder of Indeed Flex, the online marketplace for flexible workers.

This is happening at a time when demand for drivers is soaring, up by 15.6%, according to Indeed Flex stats, as delivery sector employers wrestle with 'pingdemic' staff shortages. Great news for the thousands of relatively low-skilled, low-paid drivers and riders that make the delivery platforms work, not so good for investors as staff costs escalate, pushing sustained profitability further down the road.

For example, in the half year to 30 June 2021, Just Eat Takeaway ran up a pre-tax loss of £486 million, including its Grubhub acquisition in the US. Deliveroo's first half loss totalled £104.8 million, with its marketing and overheads jumping 61% to £290.9 million.

Still, fans point to rampant growth in orders and revenue, which doubled there or thereabouts, for both firms.

SIZABLE RUNAWAY FOR DELIVERY

A 2020 survey by Alphawise, the proprietary survey and data arm of Morgan Stanley Research, found that 65% of respondents had ordered food delivery online during the past six months.

Meanwhile, food delivery via phone orders is forecast to shrink by 3% annually through 2025, suggesting a migration to digital. One of the reasons for the migration is the influx of restaurant chains. Not long ago, the lion's share of outlets using online delivery platforms were local full-service restaurants and small regional chains.

That has now changed. Nearly every major fast food chain is now partnered with at least one platform and most with more than one.

MacDonald's, for example, uses Uber Eats and Just Eat Takeaway in the UK, DoorDash and Grubhub in the US, Zomato and Swiggy in India.

Given this wider net for delivery, Morgan Stanley's Nowak and his team raised its estimate for the total addressable market from $260 billion in 2017 to $325 billion this year. Further, they forecast that this market could grow at a compound annual growth rate of 5% through 2025, implying an overall market size of roughly $470 billion.

BIG CHAINS PRESSURE 'TAKE RATES'

However, the arrival of chains is complicated. Chains have been key to bringing diners online but the economics are more challenging since lower average order values or AOVs make it more difficult to deliver food profitably.

While fast food is the largest segment of the restaurant industry, it is also the most price-sensitive, with two-thirds of transactions under $7 per person, according to Morgan Stanley's analysis. Diners might well think twice about paying an extra couple of bucks, or pounds, on top for home delivery.

Chains also have the financial clout and scale to put platform charges, or 'take rates', under pressure. This is normally a percentage of the transaction that the takeaway platform retains as revenue.

Another challenge is that leading platforms continue to use aggressive discounts and free delivery to lure diners to sign-up, hoping to

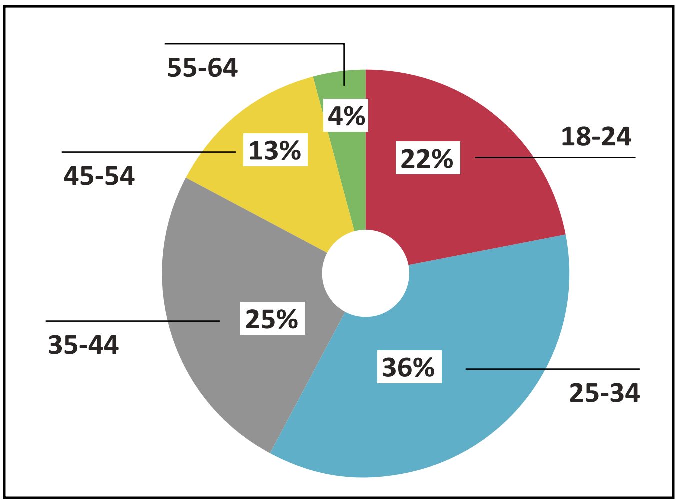
retain their business long term.

This makes sense strategically since promotions and deals play a role in 58% of diners' decision-making, according to Morgan Stanley's research, but it is also leading to negative earnings, especially in less built up cities and towns.

'US platforms lose money in every region except New York,' says Morgan Stanley's Brian Nowak. They face similar problems in Europe and elsewhere. Delivery journeys in London, Manchester and Glasgow are typically short in terms of distance and time, not so in Seven Oaks or Cirencester.

Still, fears that platforms would only get used by the young and digitally savvy have proved misplaced. The AlphaWise survey found that younger, digitally adept diners aged in the 18-34 category unsurprisingly top the user charts but data from app consultancy Apptunix shows

Not just millennials - age groups of delivery platforms users



Source: Apptunix

decent take-up among more mature people also.

Back to the youngsters, they may responsible for nearly 60% of all users but they're also the most promotion-sensitive, with the Alphawise survey finding that 63% check for promotions and deals before ordering, or only ordering at all with a promotion.

Don't expect loyalty either, convenience is king. The Alphawise survey found just over a third of users (36%) stick with a single platform, and that seems anecdotally high. Most people go with what's easy and discounted, chasing deals or free delivery, much like most of us do with car insurance or your choice of supermarket.

This invites the question, while promotional spend might draw users into the delivery platforms space, do individual platforms get any direct benefit from their considerable marketing budgets?

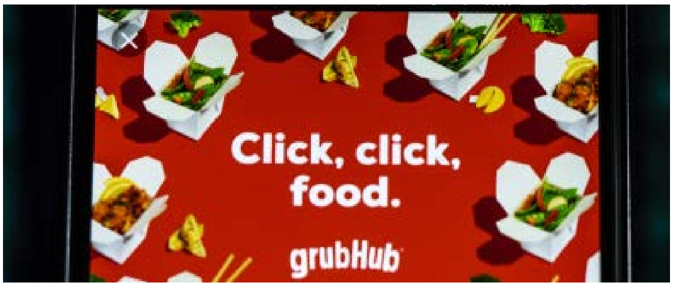
HOW CAN THE PROFIT TAPS BE TURNED ON?

First and foremost, fewer platforms will help. investors in this space will be hoping for a more rational approach on the part of participants, with private firms not so willing to rack up huge losses as a means of attracting customers.

Further industry consolidation is widely anticipated by industry and equity analysts in a bid to narrow the competition and help usher in a détente in the cash-burning promotions war. Last year some of the top players in the US market discussed various merger permutations, however, no progress came from the discussions.

Globally, however, other regions have already seen moves toward consolidation with a number of mergers and acquisitions between aggregators.

For example, Just Eat merged with UK rival Hungry House in 2016, then with Dutch peer Takeaways.com, and bought US-based Grubhub, a $7.3 billion deal that only completed in June this year.



Equity analyst Richard Windsor, of the Radio Free Mobile website, believes delivery platforms need to grab at least a 60% market share if there are to truly enjoy the implied valuable network effects of its scale. In other words by being the player with the most users and restaurants they will become more attractive to both parties.

According to research by Edison earlier this year, the UK's number one Just Eat Takeaway had a rough 45% market share, with Uber Eats (27%) and Deliveroo (26%) some way behind. Foodhub, founded in 2017 and the UK's fourth player, has most of the remaining 2%.

DoorDash, the $62.5 billion company that listed in New York in December last year, is the US leader with a 48% market share. The Uber Eats/Postmates combo (they merged in June 2020) have around 35% with GrubHub number three with 15%.

As Morningstar analysts put it, 'keeping all sides of the platform happy is key to keeping the network effect flywheel going'.

ROBOT DROP-OFFS

The biggest profits lever any delivery platform could pull is to strip itself entirely of its riders and drivers by embracing autonomous delivery vehicles, including drones. That may sound both a little misanthropic and like science fiction, yet the impetus is there given how significant staff costs are becoming as platforms expand.

Just Eat Takeaway's staff costs jumped 147% to €393 million in the first half of 2021. Sure, that includes the staff acquired with Grubhub but you can get a sense of the potential savings of autonomous vehicle delivery.

Brian Nowak of Morgan Stanley estimates that every 1% of autonomous food deliveries, through drones or other devices, could lead to a slightly more than 1% increase in company-wide earnings, and could possibly cut delivery times.

One unnamed platform has been trialling delivery drones alongside a restaurant chain partner, arriving at a designated landing site and test customer with the aim of decreasing delivery times to under 10 minutes.

PICK OF THE SECTOR

Morningstar analysts believe Just Eat Takeaway is the best positioned food delivery player in Europe trading at a material discount to their discounted cash flow-derived fair value estimate of €152 (approximately £130) and relative to peers. The stock is currently trading at £68.01 on the London market.

With its most recent acquisition of Grubhub in the US, Just Eat Takeaway has not only gained access to one of the largest food delivery markets in the world but also managed to combine the four largest profit pools in the space, being the US, UK, the Netherlands and Germany.

It also looks better insulated from downside risks and has options if it wants to expand its delivery capabilities into other areas like groceries.

TOP PLATFORMS

DELIVEROO (ROO) 390p

London listing

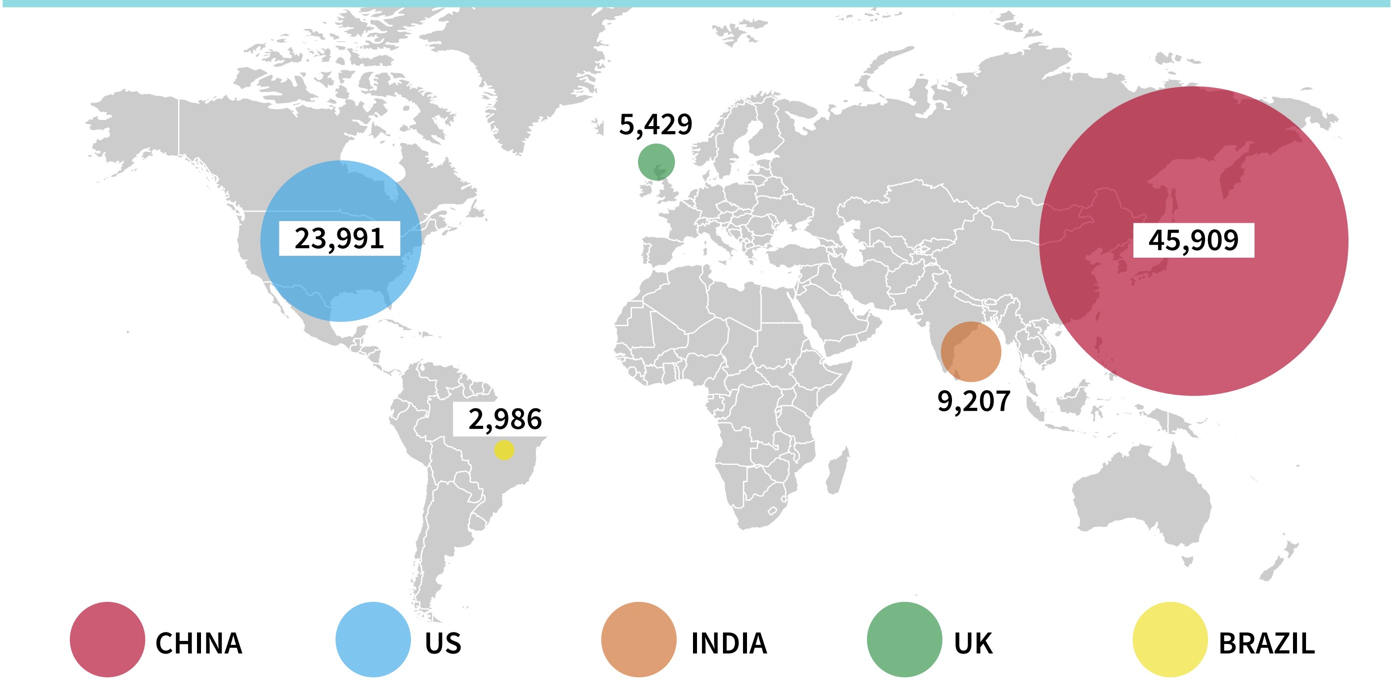
Deliveroo is a London-based food delivery start-up, which works in over 200 cities. It is the most popular food delivery app across Europe. It enables customers to order food from restaurant outlets that don't have a set-up of their own and charges a fee from the customer and the restaurant for the service. Users are charged as per their order, whereas restaurants pay a commission.

DELIVERY HERO (DHER) €115.75

Frankfurt listing

Germany-based with a mission to deliver anything, it claims to be the 'world's leading local delivery platform,' it operates a giant global ecosystem of riders, restaurants, shops and partners. From prepared meals to groceries, flowers, coffee, medicine, whatever you need fast, easy and to your door. Has begun the expansion beyond fast food that many of its peers will surely follow. Owns the Foodpanda brand.

PLATFORMS' BIG OPPORTUNITIES - TOP 5 MARKETS (ESTIMATED $M)



Source: Apptunix

DOORDASH

DOORDASH (DOOR) $184.85

New York listing

DoorDash is one of the more established food delivery apps. It supports over 300 cities in 32 markets. The app offers services in Canadian cities including Toronto, Calgary, Edmonton, Vancouver; and U.S. cities including Atlanta, Seattle, Boston, New York, and Chicago.

JUST EAT

JUST EAT TAKEAWAY (JET) £68.01

London and Amsterdam listings

Set up in 2001 in Europe, it has used its shares to acquire aggressively and emerge as Europe's top food delivery player, operating across several brands and bringing together thousands of diners with thousands of food outlets, charging a commission fee from them. Recently acquired GrubHub's widespread list of more than 30,000 restaurants in more than 800 US urban communities will make sure to satisfy their customers, thereby making it one of the best food ordering apps. GrubHub has offices in Chicago, New York, and London.

SWIGGY

SWIGGY

Privately-owned

Swiggy is the top-rated mobile app, based in Bengaluru, India. With close to 1,500,000 downloads in the play store, Swiggy has been rated Number one online food delivery app in India and is currently available in almost all the cities across the country.

Uber Eats

UBER EATS, Part of UBER TECHNOLOGIES

(UBER) $39.78, New York listing

UberEats is operational in more than 1,000 major cities in various countries around the world. The app enables clients to choose their preferred food from local restaurants and delivers food to the clients' place in the shortest possible time. Postmates delivery app is available in more than 90 cities throughout the US.

zomato

ZOMATO (ZOMATO)

₹137.45 (Indian rupees), Bombay listing

Zomato, an online restaurant search platform, was founded under the name 'Foodiebay' in 2008. The company expanded the features by including food ordering and delivery in the top cities of the world. Zomato is now available in nearly 25 countries all over the world including India, Australia, and the US.

FTSE 250 - value vs growth and the hunt for yield

Analysing stocks by valuation and dividends and flagging the best performing mid cap funds

This is part two of a three-part series on the FTSE 250. Read part one here and we'll conclude the series in next week's issue.

In our three part series on the FTSE 250 we are aiming to slice and dice the index to identify stocks with different inherent qualities and generate ideas for investors. This week in part two we look at the FTSE 250 from the perspective of growth versus valuation and dividend expansion, and finish with a look at funds which focus on mid-cap stocks.

GROWTH VS VALUE

Historically, earnings for the FTSE 250 have grown at a faster clip than FTSE 100 earnings for the simple reason that smaller companies tend to grow more quickly.

Moreover, many of the biggest stocks in the FTSE 100 are in low-growth sectors like energy, mining, banking and consumer staples, which lowers the average rate of earnings growth.

In contrast, many of the biggest stocks in the FTSE 250 are in faster-growing – albeit more volatile – sectors such as industrial goods, media and travel and leisure.

As a result of their higher earnings growth, mid-cap companies tend to trade on a higher multiple, so whereas the FTSE 100 has typically been valued at around 14 to 16 times cyclically adjusted earnings over the last decade, the FTSE 250 has traded at over 20 times cyclically adjusted earnings over the same period.

Therefore, the question is how much should you pay for growth? One simple screen which was popularized by legendary Fidelity fund manager Peter Lynch, and is still used today by Mark Slater to manage client assets, is the PEG or price to earnings growth ratio.

In a nutshell, if a company grows its earnings at 10% and is priced at 10 times earnings, it is trading on a PEG of 1, whereas if it were priced at 20 times earnings it would be on a PEG of 2, which is clearly less attractive.

The PEG is a useful way of comparing companies with different earnings growth rates in different sectors. On paper at least, stocks with a low growth rate should trade at a low PEG while those with higher growth rates should trade on a higher PEG, as most investors tend to like more rather than less growth, but that isn't always the case.

Right now, our PEG screen – which has been constructed using data from Sharepad – is picking up a strong rebound in profits at housebuilders, specialty chemical and consumer stocks, which suffered during lockdown.

It's interesting to note that among the stocks with the lowest PEGs are **Morrisons (MRW)** and **Vectura (VEC)**, both of which are bid targets, as

FTSE 250 PEG screen

Company	Forecast PE	Forecast EPS growth	PEG
Marks & Spencer	11.1	829%	0.01
TI Fluid Systems	15.9	782%	0.02
Balfour Beatty	13.7	484%	0.03
Synthomer	7.3	159%	0.05
Vectura	30.8	430%	0.07
Ibstock	16.9	243%	0.07
Vistry	10.2	130%	0.08
Bellway	10.1	116%	0.09
Redrow	9.9	112%	0.09
Coats Group	15.5	156%	0.10
Gamesys	11.9	113%	0.11
Marshalls	27.8	235%	0.12
4imprint	58.4	471%	0.12
Crest Nicholson	13.5	113%	0.13
Countryside Properties	25.4	201%	0.13
Biffa	19.6	147%	0.13
Morrisons	19.9	139%	0.14
Inchcape	18.3	112%	0.16
Playtech	24.5	117%	0.21
Renishaw	38.8	158%	0.25

Source: Sharepad, Shares
Data correct as of 19 August 2021, adjusted for share splits and consolidations

well as several of our running buy ideas such as **Biffa (BIFF)**, **4imprint (FOUR)**, **Gamesys (GYS)** and **Marshalls (MSLH)**.

Meanwhile, stocks which benefited from us all being cooped up at home with time – and in many cases money – on our hands during lockdown are now losing momentum as customers return to going out and having fun again.

DESPERATELY SEEKING INCOME

Importantly, while we have seen a strong rebound in earnings back towards pre-pandemic levels in many sectors, the recovery in dividends has been much slower.

As Bruce Stout, manager of **Murray International investment trust (MYI)**, points out in his half-year review of the markets, many companies are opting to re-base their dividends while they wait and see what shape the recovery takes.

'Improving global growth prospects and rising corporate profitability restored confidence that manifested itself in almost universally higher equity prices. But numerous companies remained very cautious when it came to returning improving cash flows to shareholders.

'Opting to reset dividends below pre-pandemic levels or to keep dividends unchanged until greater transparency emerges was commonplace against a backdrop of viral mutations and constantly changing directives from governments.

'Unlike previous periods of dividend recessions, the path to income recovery may take much longer for certain economic sectors and businesses this time around. A focus on strong corporate balance sheets, flexible investment parameters and diversified geographical exposures remains key for driving sustainable income growth in and beyond the current environment.'

Once again, we have screened the FTSE 250 using Sharepad to identify those companies which are rewarding investors with increased pay-outs and those

FTSE 250 dividend raisers & cutters

Company	Latest DPS	Forecast DPS	DPS growth
Balfour Beatty	1.5p	7.5p	400%
Dunelm	8p	32.6p	308%
Ferrexpo	26.4p	102.8p	289%
Ibstock	1.6p	6.1p	279%
Marshalls	4.3p	12.9p	201%
Tyman	4p	11.7p	193%
Inchcape	6.9p	18.2p	164%
Synthomer	11.6p	29.6p	155%
Vistry	20p	49.5p	148%
Bellway	50p	110.9p	122%
Genuit	4.8p	9.9p	106%
Softcat	16.6p	30.8p	85%
Essentra	3.3p	6.1p	85%
Serco	1.4p	2.5p	82%
Micro Focus	11.3p	20.1p	78%
John Laing Group	5.6p	10p	77%
Pennon Group	25.1p	43.4p	73%
Reach	4.3p	7.2p	69%
Unite Group	12.7p	21.3p	67%
RHI Magnesita	100p	166.4p	66%
TI Fluid Systems	7.6p	5.2p	-31%
Domino's Pizza	14.7p	10.1p	-31%
Rotork	10.2p	6.5p	-36%
Spectris	111.6p	71.5p	-36%
Clarkson	132p	84.1p	-36%
Ultra Electronics	96.1p	60p	-38%
CMC Markets	30.6p	18.1p	-41%
Centamin	11.6p	6.6p	-43%
IMI	48.7p	26.5p	-46%
Plus500	149.5p	63p	-58%

Source: Sharepad, Shares
Data correct as of 19 August 2021, adjusted for share splits and consolidations. Note: DPS = dividend per share

which have chosen to stockpile cash instead.

Reassuringly, most of the companies which are enjoying a dynamic rebound in earnings are sharing their good fortune with their shareholders as a reward for sticking with them.

Therefore the list of big dividend growers is full of the same house builders and construction-related names as the first table, with the addition of a few software companies and impressively homewares retailer **Dunelm (DNLM)**, which had a good run during lockdown thanks to its online operations but has also seen customers return once store restrictions were lifted.

There are also a few familiar names on the dividend cutters list, most notably the trading platforms, which is probably due to their policy of a fixed pay-out ratio come what may.

However, the presence of several 'quality industrials' is also noteworthy, as is the inclusion of automotive systems firm **TI Fluid Systems (TIFS)** which is enjoying a big recovery in earnings but not sharing the love with its investors.

FUNDS TO PLAY THE MID-CAP MARKET

There are plenty of funds and investment trusts specialising in

ASI Mid-Cap Fund Top 10 Stocks	
Company	**Weighting**
Future	3.7%
Kainos	3.5%
Impax Asset Management	3.4%
Keywords Studios	3.4%
Gamma Communications	2.8%
Marshalls	2.8%
Games Workshop	2.7%
Auction Technology Group	2.5%
Intermediate Capital Group	2.4%
Bytes Technology	2.3%
Total	29.5%

Source: ASI, Shares

mid-cap stocks, run by respected fund management firms as Allianz, JPMorgan and **Schroders (SDR)** and raning in size from £50 million to over £3.5 billion.

The top-ranked fund over three years is the **ASI UK Mid-Cap Equity Fund (B0XWNT2)**, which was moved to the smaller companies team three years ago and is run by Abby Glennie and Amanda Yeaman.

The fund targets an annual return of 3% over the FTSE 250 index over three years, but has actually delivered more than three times the return of the FTSE 250 index and the Investment Association's UK All-Companies index over the last three years.

The duo's stock selection process identifies 'companies which show a range of high-quality characteristics, operate in growing markets and display positive business momentum', which inevitably means the portfolio can look a lot different to the underlying index.

Currently the highest weightings are in technology and financial stocks, which make up 21.9% and 16.2% of the fund respectively. The top 10 holdings, which make up almost a third of the portfolio, are very different to the top 10 FTSE 250 stocks by weighting which make up just over 10% of the index.

The trade-off for the outstanding performance is a dividend yield of just 0.5% compared with a current dividend yield of 1.88% for the FTSE 250 but given the fund's approach to stock picking this shouldn't be a great surprise.

UK MID-CAP FUNDS		
Fund	**Fund Size**	**3yr Perf**
ASI UK Mid-Cap	£247m	52.2%
Schroder UK Mid-Cap	£285m	51.7%
JPMorgan UK Mid-Cap	£300m	34.3%
Axa Framlington UK Mid-Cap	£593m	33.7%
Royal London UK Mid-Cap	£501m	29.2%
Threadneedle UK Mid 250	£75m	27.5%
Franklin UK Mid-Cap	£1.16bn	27.3%
HSBC FTSE 250 Index	£1.71bn	25.0%
Allianz UK Mid-Cap	£49m	23.7%
Jupiter UK Mid-Cap	£3.61bn	23.6%
FTSE 250 Index		14.2%
IA UK All Companies		15.6%

Source: Trustnet, Shares
Data correct as of 20 August 2021

By **Ian Conway,**
Senior reporter

Investing for children: how to give your kids a head start

Shares explains why you should invest for your offspring's future and discusses how to do it

Children are growing up in an uncertain world, as current geopolitical tumult and extreme weather events demonstrate, which means their parents have plenty to fret about.

However, one step parents can take to help them sleep better at night is to ensure their kids' financial futures are as secure as they can be by paying into a long-term savings product. Kids grow up fast, yet so too could their money with the help of a Junior SIPP or Junior ISA.

If you start early, save often and trust in the power of compounding, even relatively small monthly contributions can morph into a tidy nest egg by the time your son or daughter turns 18, in the case of a Junior ISA, or reaches retirement, in the case of a Junior SIPP.

In the case of the former, this nest egg can help to fund everything from a deposit on a house to driving lessons or university costs.

ABOUT JUNIOR ISAS AND JUNIOR SIPPS

If your child is under 18, up to £2,880 a year can be paid into a Junior SIPP on their behalf and the government will instantly top it up with a 20% bonus, to a maximum of £3,600.

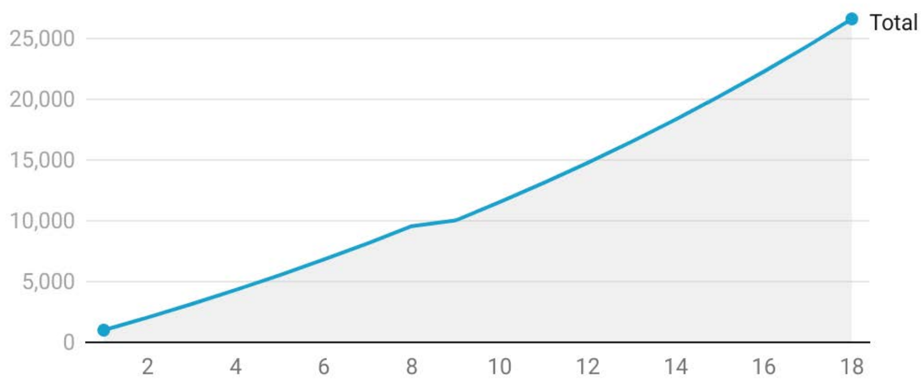
Just like a regular SIPP, any investment growth the fund delivers will be tax-free with the money accessible when your child reaches the UK's 'normal minimum pension age' (NMPA), currently set at 55 and due to rise to 57 in 2028, with further increases possible before your child gets there. The tax treatment of withdrawals is also the same as a regular SIPP, with 25% available tax-free and the rest taxed in the same way as income.

You can save up to £9,000 a year in a Junior ISA, which can be based in cash or stocks and shares, although unlike a Junior SIPP there is no upfront government bonus. Investment growth is tax-free, and your child can take over managing the account from age 16.

While £9,000 a year might beyond a lot of us, if you could squirrel away £1,000 a year, over an 18-year period and assuming a return from the markets of 5%, *Shares*' calculations suggest your child would still end up with a tidy sum of more than £25,000, with more than £8,500 of this made up of tax-free investment returns.

They won't be able to access funds until they reach their

With investment growth of 5% a year a £1,000 annual contribution to a Junior ISA would create a healthy nest egg



Indicative example assumes 5% return a year and £1,000 lump sum paid in at the start of each year.

Source: Shares. • Created with Datawrapper

18th birthday, at which point the Junior ISA will convert to a regular adult ISA. Any withdrawals they make will be tax free, but it's important to note you will no longer have any control over what they do with the funds.

So a key risk with a Junior ISA is that the recipient goes on a spending spree on their 18th birthday. The entire portfolio could be liquidated with no thought given to the effort made by parents over many years to give their son or daughter a head start in adult life.

If you are overly worried about your child gaining control of the money at 18 and spending it all in one go, you could open an ISA in your name and then control when your kid receives the money.

TIME IS ON THEIR SIDE

As a parent investing for young children, you have the benefit of a long-term investment horizon and don't need to concern yourself too much with volatility or short-term market fluctuations. Be prepared to expose Junior ISA portfolios to plenty of risk as the investment timeframe is relatively long, although a conservative approach is understandable if you don't want to risk your money losing value or there's only a short time until the child turns 18 and wants the cash.

Equities tend to outperform other asset classes over the long term and should be your first port of call, with portfolio funds gradually shifting into less volatile assets as the child gets closer to 18.

Deciding whether to pay into a Junior SIPP or Junior ISA on your child's behalf is tricky and depends in part on your priorities. If you want to give them an easily accessible pot of money from age 18 which could be used towards a house deposit, for example, then a Junior ISA might be preferable.

Conversely, if you prefer to look more long term and turbo-charge their retirement savings, then a Junior SIPP might be the best option. And just like with regular SIPPs and ISAs, you might decide that a combination of a Junior ISA pot and a longer-term Junior SIPP pot is the most appropriate solution.

LOOKING FOR IDEAS

When it comes to picking individual stocks, there is logic in putting money to work in products or services that your kids are interested in and spend money on, since this will also engage your children in the saving and investment process and ensure these businesses are future-proofed by catering to the consumers of tomorrow.

Shares highlights two stocks and a low-cost ETF below, but here are some other examples of businesses with a youthful customer base.

Children and teenagers are hooked on Facebook, owner of two of the most engaging social media apps in the world – 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.

Younger children may well be devotees of the likes of Mattel, the toy products company behind Barbie, Hot Wheels and Fisher-Price.

Newly-listed US gaming group Roblox, is a kids' gaming platform where players can interact with each other through Lego-style avatars within various games. Roblox was a beneficiary of lockdown with young people stuck indoors, but daily active users are growing post the pandemic too.

On the UK stock market, video games outfit **Team17 (TM17:AIM)** and fantasy games publisher **Frontier Developments (FDEV:AIM)** are exposed to a booming gaming industry, or your kids may be avid fans of the fantasy miniatures made by **Games Workshop (GAW)**.

Also meriting mention are online fashion retailers which appeal to the younger demographic, namely **ASOS (ASC:AIM)** and **Boohoo (BOO:AIM)**, not to mention recent stock market entrant **In The Style (ITS:AIM)**, the digital womenswear fashion brand which collaborates with social media influencers to stoke demand for its collections.

KEY PICKS

JD Sports Fashion (JD.) 967p

BUY

Shares believes it is well worth paying up to put retail star turn **JD Sports Fashion (JD.)** in a Junior SIPP or Junior ISA, despite the shares trading on a rich prospective price/earnings multiple of 24.8 for the year to January 2022 and 21.1 times based on earnings estimates for fiscal 2023 based on Refinitiv Eikon data. One of the retail sector's quality names, JD Sports Fashion has successfully tapped into the 'athleisure' boom among youthful gym-goers and fashion-savvy consumers and is on track to deliver increased pre-tax profits of no less than £550 million in the current year. JD Sports should continue to do well as teenagers look to refresh their personal style post-pandemic, although having built its success on close ties with Nike and other powerhouse sportswear brands, the fact the likes of Nike and Adidas are successfully focusing on direct-to-consumer sales presents a longer-term risk.

Hasbro $97.1

BUY

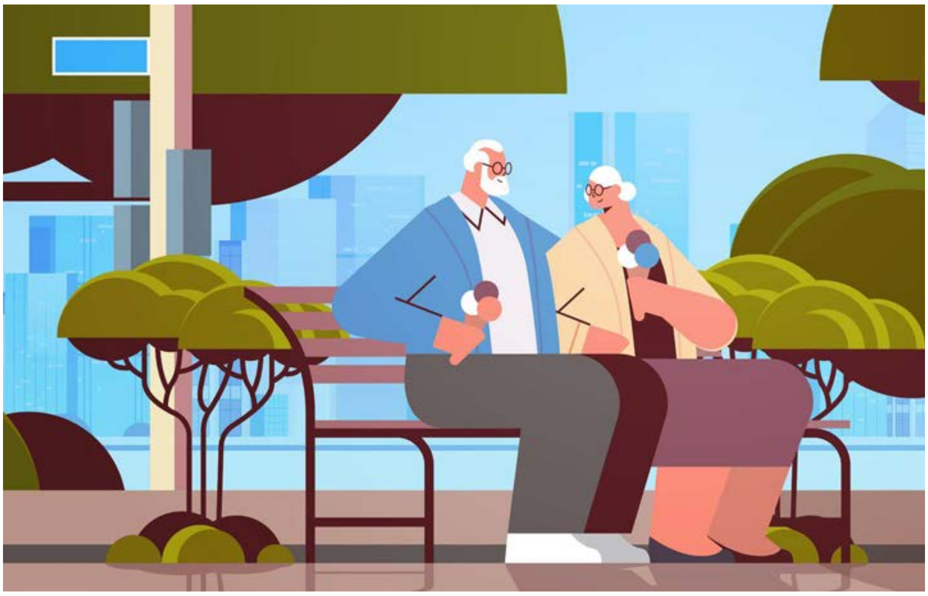
Parents seeking to stoke their kids' interest in investing could put some money into global play and entertainment company Hasbro, trading on roughly 20 times forecast 2021 earnings with a healthy free cash flow yield of 5.4% according to Refinitiv Eikon. With consumer products including spanning toys, games, entertainment and digital gaming, Hasbro is the business behind well-known brands such as Transformers, Nerf, and Monopoly. It also has stakes in Discovery Family, which offers programming from Hasbro Studios, and animation studio Boulder Media, while the 2019 acquisition of Entertainment One brought popular children's properties Peppa Pig and PJ Masks into the fold. Hasbro recently delivered (26 Jul) excellent second quarter results showing revenues up 54% year-on-year to $1.32 billion with adjusted operating profit more than quadrupled to $211.6 million.

VanEck Vectors Video Gaming and eSports UCIT ETF (ESGB) £28.74

BUY

Charges eat into returns over the long-term, so it is definitely worth adding a low-cost exchange-traded fund (ETF) to your Junior SIPP or Junior ISA. One passive fund offering a play on childrens' and teenagers' pursuits is the **VanEck Vectors Video Gaming and eSports UCITS ETF (ESGB)**, which seeks to replicate, before fees and expenses, the price and yield performance of the MVIS Global Video Gaming and eSports Index. Top holdings include Nvidia, the Nasdaq-listed semiconductor designer best-known for providing advanced microchips for graphics-heavy computer gaming, as well as rival chips designer Advanced Micro Devices. Other leading holdings include SEA, South-East Asia's successful online gaming and commerce firm, as well as Chinese internet titan Tencent, which is taking over UK video games developer **Sumo (SUMO:AIM)** for £919 million. The ETF has an ongoing charge of 0.55%.

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



State pension set for an 8% rise

If the triple lock is maintained payments could be in for a bumper increase

The year 2022 could be a bumper payday for those receiving the state pension. Based on current trends, pension payments are expected to rise by around 8% from next April. That's because the 'triple lock' guarantees that the state pension will rise each year in line with the highest of earnings, inflation, or 2.5%.

Since the spring and summer of 2020, earnings have rocketed as more people have come off furlough, and the latest figures show that total pay increased by 8.8% in the last year. Not everyone is rejoicing however, and the high level of earnings growth has led to calls to abandon the triple lock.

STATISTICAL ANOMALY

That's partly because the growth in earnings is really a statistical quirk, stemming from the widespread use of the furlough scheme last year. Millions of people have gone from receiving 80% of their wages to being paid in full once again, and that's artificially pushed up earnings growth.

There aren't too many people out there who have genuinely been handed an 8.8% pay rise over the last year. It also doesn't look that fair to be distributing such a bumper pay rise to pensioners, while many younger people have lost their jobs as a result of the pandemic, particularly when you consider that restrictions were mainly put in place to protect older generations from the devastating effects of Covid-19.

There's also a big question over the cost of such an increase to the public purse. The OBR reckons that a 1% rise in the state pension equates to around £900 million of extra spending for the Treasury, so an 8.8% rise adds up to a pretty substantial extra bill for the Exchequer. This clearly comes at a time when the chancellor is trying to repair the nation's balance sheet after spending huge sums of public money fighting the coronavirus. On the face of it then, it seems difficult to justify maintaining the triple lock. But as ever, there are two sides to the story.

WHY THE TRIPLE LOCK WAS INTRODUCED

From 1979, the state pension was increased only in line with prices, rather than earnings which led to the infamously derisory 75p increase in April 2000. The backlash prompted the then chancellor, Gordon Brown, to introduce a 2.5% minimum on annual increases.

But it wasn't until 2011, when the coalition government introduced the triple lock, that a link between the state pension and earnings growth was restored. In the intervening thirty years though, the state pension had lost its value compared to earnings.

So while the triple lock means over time it will rise ahead of earnings, it's still just making up for lost time. The Pensions Policy Institute reckons it will be 2038 before the triple lock gets back up to

26% of earnings, the level it stood at in 1979. When you consider the UK's state pension is also meagre compared to international peers, there's therefore a case for keeping the triple lock in place.

THE BENEFITS TO THE YOUNGER GENERATION

Younger people also potentially stand to benefit from the triple lock, because when they start to draw on the state pension, it will be at a higher level than if the triple lock weren't there. This does depend on pension policy relying stable though. If you're 25 years old, you can currently only expect to start drawing your pension from age 68, compared to many people already receiving their pension who would have received it from age 65, or earlier.

If younger generations are to benefit from the triple lock therefore, it's imperative they don't pay for it by moving the goalposts even further away when it comes to their state pension age.

This does seem like a somewhat heroic assumption. Particularly in light of the fact the triple lock means taxpayer spending on the state pension is set to rise from around 4.5% of GDP now, to around 7% by 2066, according to a 2018 projection from the Office for Budget Responsibility.

GOALPOSTS LIKELY TO BE MOVED

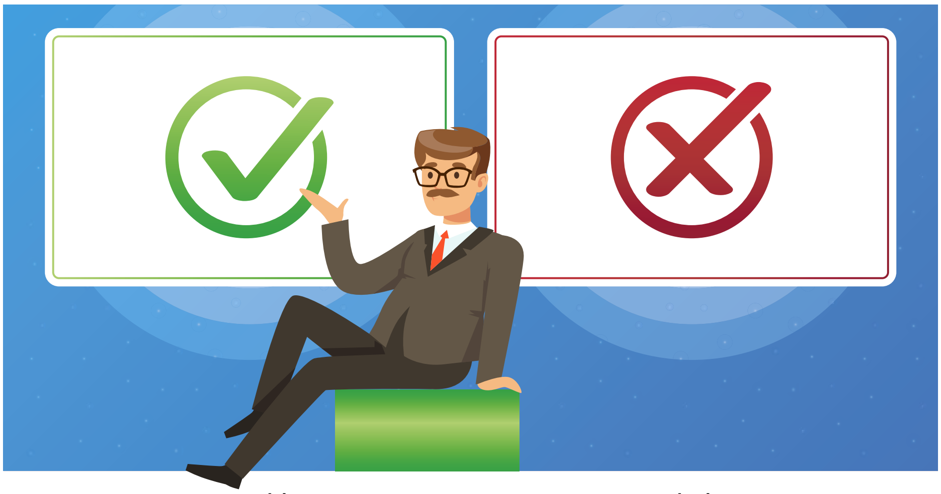
The reality is that by the time today's twentysomethings reach retirement age, politicians will probably have moved the goalposts, the corner flags, the pie stand, and changed the shape of the ball. The Government currently faces a dilemma on whether to maintain the triple lock, and no doubt it won't be the last state pension quandary to arise.

Irrespective of what is decided in Westminster, it still remains the case that the best way to insulate yourself from political interference in your retirement is to build up a big enough private pension of your own, so that you aren't too reliant on what the state will provide.

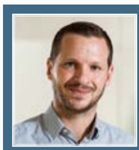
By **Laith Khalaf**
AJ Bell
Financial Analyst

Can you help me with the 'dos' and 'don'ts' of drawdown?

What you should and shouldn't do if you're staying invested in retirement



I'm 65, active and enjoy my flexibility. Because of that I'm fairly sure I don't want to buy an annuity. Could you offer some basic 'dos' and 'don'ts' for anyone wanting to stay invested in drawdown?
Moira



Tom Selby
AJ Bell Senior Analyst says:

While buying an annuity is a one-and-done decision – with your income guaranteed for life – drawdown offers more flexibility. You can choose to take withdrawals as and when you want to suit your needs and lifestyle.

This flexibility means you need to take a more active, engaged role managing your pension in retirement.

The below list of 'dos' and 'don'ts' is by no means exhaustive, but hopefully gives you a few useful things to consider.

DRAWDOWN DOS

Review your withdrawals and investment strategy regularly: Spend a bit of time thinking about how much income you will need to fund your retirement and how you plan to generate that income from your investments and what income tax might apply. Make sure you review your investments and withdrawal strategy regularly – at least once a year – to make sure your plans remain on track.

Have a cash pot to pay your income: It makes sense to have a big enough cash fund to pay yourself an income – anywhere between 12 and 24 months' income is probably sensible. This should provide a buffer so you can avoid selling investments at the wrong time (i.e. when markets are tumbling).

Keep your charges as low as possible: Whatever you do, make sure you keep your costs and charges as low as possible. Even small differences in the amount you pay to a platform or investment company can wipe thousands of pounds off your retirement income over the long term.

Consider speaking to a regulated financial adviser: Managing your retirement fund in drawdown requires you to consider and manage a variety of risks including longevity risk, inflation risk and investment risk. While some people might feel confident going it alone, a good financial adviser can help you make the most of your money and avoid falling down a tax pitfall. You will have to pay for their services, but this is often excellent value for money over the long term.

DRAWDOWN DON'TS

Take your entire pension as soon as you can: It is all too common for savers to whip all of their pension out at the earliest possible opportunity. This behaviour often comes from a distrust of pensions or simply a desire to get the money as quickly as possible. If you do this you risk handing more money to the taxman than is necessary, as 75% of your withdrawals will be taxed as income (with the other 25% tax-free). This means you could pay income up to 45% on a large one-off withdrawal depending on your other income. What's more, you will be taking the money out of a tax-efficient environment and trigger the money purchase annual allowance (MPAA), reducing the amount you can potentially save in a pension from £40,000 a year to £4,000 a year.

Withdraw too much, too soon: One of the biggest mistakes people in retirement can make is taking out too much, too early from their pension pot. You can access your pension from age 55 at the moment, although this is due to rise to 57 from 2028. However, just because you can do something doesn't mean you should. If you start taking a retirement income in your 50s then that might need to last for 40 years or more. While in some cases this might be doable, you will need to live off less or risk running out of money in retirement.

Stick your head in the sand: For drawdown to work most effectively you need to engage and be prepared to adjust your plans if circumstances change. If your investments hit the skids – something many people experienced in 2020 – then a previously sustainable retirement income strategy could become unsustainable. Anyone who just ploughs on regardless will run the risk of exhausting their pot sooner than they originally planned.

As a very rough guide, a healthy 65-year-old should be able to withdraw between 3% and 4% of their fund and be confident it will last throughout their retirement – although this figure will vary depending on the performance of your investments.

Invest all your pension in cash over the long-term: With inflation returning to the economy, holding too much cash over the long-term comes with the risk of your spending power being eroded away by rising prices. While having some cash might be necessary, investing everything in cash – or even worse withdrawing your money from a pension, paying unnecessary tax and then shoving the money in a bank account paying little or no interest – risks causing significant damage over the course of your retirement. If you don't want to take any investment risk, drawdown probably isn't for you.

One of the biggest mistakes people in retirement can make is taking out too much, too early from their pension pot

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.

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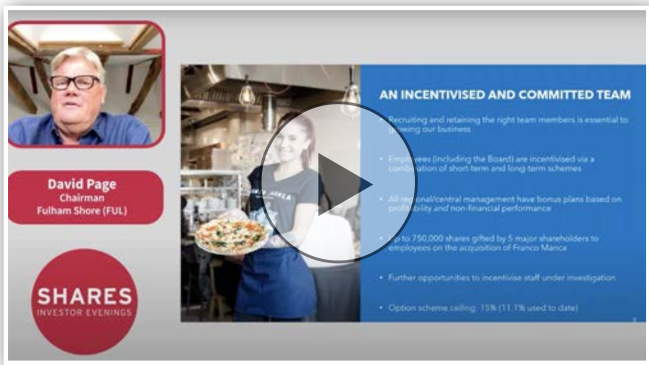

Fulham Shore (FUL)
David Page, Chairman &
Nick Wong, Finance Director

Fulham Shore founded in 2012 and admitted to AIM in 2014, Fulham Shore (FUL) owns and operates The Real Greek and Franco Manca restaurant brands.

Karelian Diamond Resources (KDR)
Professor Richard Conroy, Chairman

Karelian Diamond Resources is an Ireland-based company which focuses on the discovery of diamond deposits in Finland. It is engaged in exploring for diamonds and evaluating an existing diamond prospect (diamondiferous kimberlite pipe) in the Karelian Craton of Finland.

Baillie Gifford Managed Fund
Lucy Haddow, Client Services Director

The Baillie Gifford Managed Fund aims to achieve capital growth over rolling five year periods. This is underpinned by a simple and consistent long-term approach which has not changed since its inception in 1987, with active stock and bond picking and a focus on growth.

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Emerging markets' long-term outperformance

Despite lots of turbulence the developing world has delivered superior growth over the decades

Because emerging markets are subject to bouts of considerable volatility it is easy to lose sight of the bigger picture.

Powered by developing economies like China and India the MSCI Emerging Markets index has comfortably outpaced its developed market counterpart MSCI World since its launch at the beginning of 2001.

It has chalked up an annualised net return of 9.3% against 6.6% for the MSCI World. This is unsurprising when you consider China's 2019 GDP growth rate, prior to the pandemic, of 6.1% was considered a disappointment despite coming in at a level the developed world could only dream of.

While there's no guarantee these sorts of returns will continue in the future it at least suggests that for patient investors investing in this area can be rewarding.

There are several reasons for emerging markets superior growth on a long-term view. A key factor is that they are playing catch up with the rest of the world, with their economies becoming more industrialised and their middle classes growing which is leading to increased domestic consumption.

Technology is also playing a part, helping emerging markets transition from being centres for the production of low-cost, commoditised goods to higher value items.

These attributes are combined with attractive demographics, with relatively youthful economically active populations, unlike in the West and Japan which are seeing a shrinking working age cohort and having to fund growing numbers in retirement.

Emerging markets: Views from the experts

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

1. China is in the middle of a tightening regulatory cycle, implementing anti-monopoly, data security and industry-specific regulations. The underlying thread that ties the intense regulatory activities across many industries lies in Beijing's determination to develop China into a 'modernized socialist economy', including objectives of common prosperity, green development and independence in key technologies and industries. Geopolitics also plays a key role. It is critical to evaluate the alignment of companies with China's long-term strategic goals. **Regulatory cycles are not uncommon in China**—policy and regulatory scrutiny should be seen as ongoing risks when it comes to investing in China, to be carefully monitored and integrated in company research and portfolio management. We don't believe government regulatory efforts aim to curtail digital sector growth as a whole.

2. In **China's education sector**, we believe that current regulatory scrutiny on the AST (after school tutoring) industry is driven by the government's desire to reduce the educational burden on children and parents, in the context of government concerns regarding the country's slowing birth rate. Key stipulations in the new policy included that AST must be 'not-for-profit' entities, in which case all profits and cashflows must be reinvested into the business and sponsors (shareholders) cannot lay claim to profits, foreign investors can no longer invest in AST via the Variable Interest Entity structure, which could likely result in company de-listings, and AST institutions are not allowed to use capital markets for financing.

3. Although concerns of widening regulatory changes in **China's internet sector** weighed heavily on stock prices in July, more recent efforts by the securities regulator to ease market concerns offered investors some comfort. Similar to many regulators globally and as seen in the past in China, we believe that recent actions serve to ensure that private enterprises remain aligned with the government on issues such as market competition, product safety, social policies, public good and national security. Over the medium term, we see the larger challenge to China's internet sector being rising competition, which will require from investors greater emphasis on fundamentals and stock selection.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

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Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

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

RUSS MOULD
AJ Bell Investment Director

Why gold could yet shrug off an unhappy anniversary

The precious metal has performed poorly of late but there are catalysts which could see it shine again

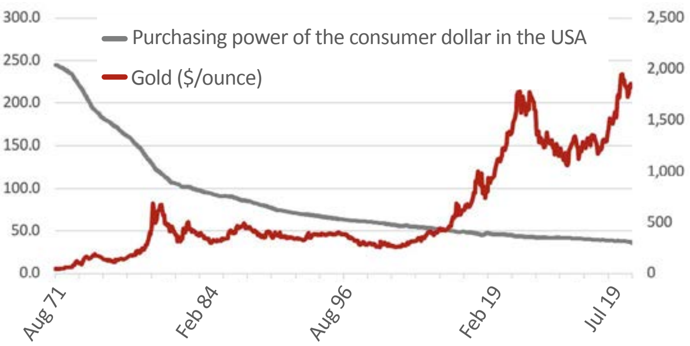
In August 1971, America's 37th president, Richard M. Nixon, took the greenback off the gold standard, 'closing the window' though which overseas governments could exchange paper dollars for the precious metal at a fixed rate of $35 an ounce.

That manoeuvre, which signalled the end of the 36-year-old Bretton Woods monetary system, enabled Nixon and the US to pay for welfare programmes and ultimately fruitless military action in Vietnam.

Although economists and politicians hailed the policy as a liberation from a monetary straitjacket, investors can draw their own their own conclusions as to what markets ultimately thought of the launch of unfettered money creation by independent central banks.

The scores on the doors are clear: gold has gained 4,160% across the last five decades against

Gold has gained huge value relative to the dollar since 1971



Source: Refinitiv data, FRED – St. Louis Federal Reserve database

the dollar. Put another way, the buck has lost 98% of its value relative to the precious metal while 85% of its purchasing power has gone for good measure, thanks to an inexorable rise in the consumer price index (or inflation, in other words).

And so, exactly 50 years after the demolition of Bretton Woods, here we are again: a US government that is running welfare programmes (and more besides, even allowing for the military withdrawal from Afghanistan) that it cannot afford and is running out of cash as it bumps up against the current Federal debt ceiling agreed by Congress of $28.4 trillion.

No wonder gold bugs are becoming more numerous.

FIFTY LONG YEARS

That said, even the most ardent supporters of the precious metal may have found it hard to celebrate the 50th (golden) anniversary of with too much vigour. Gold suffered some vicious selling earlier this month, for reasons which have yet to become entirely clear.

Talk of a possible peak in the US inflation rate could be one explanation. Others pointed to

RUSS MOULD
AJ Bell Investment Director

what they felt was a co-ordinated hit by hedge funds in the futures markets while a gathering consensus among economists that the US Federal Reserve may be about to start tapering its QE or quantitative easing programme could have also had an influence.

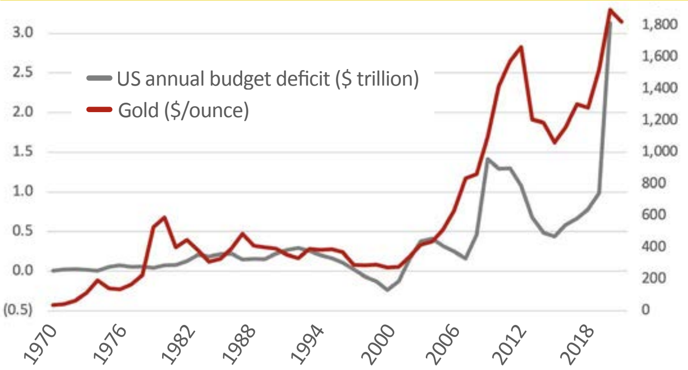
Whatever the reason, though, the plunge did not last long, and gold has quickly recovered its ground. But for it to break fresh ground and motor beyond $2,000 an ounce on a sustainable basis for the first time, one of three things may need to happen (or even a combination of them).

The first is that government debts keep rising and that QE is deployed to keep interest rates low and help fund them, as rising spending and rising deficits persuade investors look for stores of value to preserve their wealth. Gold is hard to find and costly to mine, so supply grows slowly, in contrast to the supply of money.

The opposite – the reining in or even the sterilisation of QE – could therefore hit sentiment toward gold. The former may happen, the latter simply looks impossible given the path taken in the last dozen years or so since the financial crisis and the Biden administration's current spending plans, for example, but you never know.

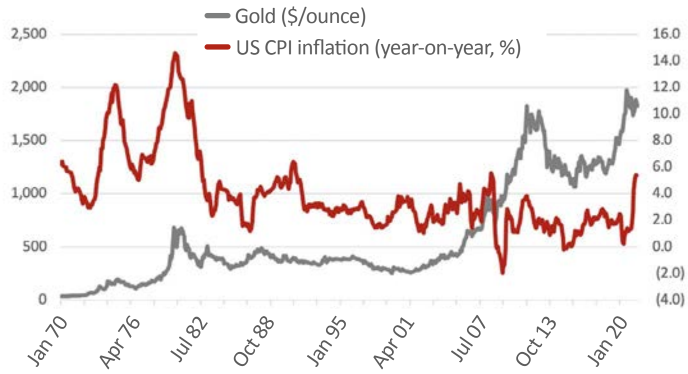
The second is that inflation stays elevated or keeps rising. This would knock faith in the narrative that central banks have everything under control, challenge the authorities' view that the current round of prices rises in 'transitory' and potentially force interest rate rises whether central bankers

The trajectory of government debt is one possible driver for gold ....



Source: Refinitiv data, FRED – St. Louis Federal Reserve database

... inflation is another ....



Source: Refinitiv data, FRED – St. Louis Federal Reserve database

want them or not.

In theory, rising interest rates would be bad for gold, as improved returns on cash and higher bond yields would increase the cost of owning the metal (owing to foregone interest or yield). But that would depend upon what the real rate of interest is, adjusted for inflation and this is the third trend to watch.

If inflation rises faster than rates, further eroding the purchasing power of paper currency in the process, then the post-Nixon experience of the 1970s would suggest gold could shine in such an environment. A surge in real rates, as seen under Federal Reserve chair Paul Volcker, could see the case for gold melt away, as it did in the 1980s and 1990s, although whether the Federal Reserve has the stomach for this remains to be seen.

... while real interest rates could be the clincher, either way

Source: Refinitiv data, FRED – St. Louis Federal Reserve database

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

1 September: Arcontech. **2 September:** Barratt Developments. **3 September:** Allergy Therapeutics

Half-year results

27 August: BBGI Global Infrastructure, Yew Grove REIT. **31 August:** Centralnic. **1 September:** 888 Holdings, Churchill China, Johnson Service, Menzies (John), Petropavlovsk, PPHE Hotel. **2 September:** Gem Diamonds, Gulf Keystone, Inspired, Wentworth Resources. **3 September:** Eurocell

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THIS WEEK: 12 PAGES OF BONUS CONTENT

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FULHAM SHORE

TEAM

WAREHOUSE REIT

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

AUGUST 2021

ISSN 2632-5748

Introduction

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

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

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

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

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

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

Click here for details of upcoming webinars and how to register for free tickets.

Previous issues of Spotlight are available on our website.

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AIM by numbers

London's junior market has come a long way from its mid-1990s origins

In the wake of the Covid-related crash, AIM stocks have outperformed their counterparts on the main market.

Since the beginning of March 2020 the FTSE AIM All-Share is up 47% while the FTSE 250 is ahead by less than half this much at 22.3% and the FTSE 100 has only managed a 7.25% advance.

While smaller-cap companies have more scope for expansion, it underlines how far the UK's junior market has come from its starting point in June 1995 when, according to the London Stock Exchange, it comprised just 10 companies worth a collective £82.2 million.

Now there are more than 800 AIM companies with an average market value upwards of £80 million. More than 30 companies have a market cap in excess of £1 billion, meaning that if they were to move to the main market they would have a good chance of joining the FTSE 250, where the smallest company has a market cap of less than £350 million.

HOUSEHOLD NAMES

The market also encompasses some household names like low-cost airline **Jet2 (JET2:AIM)**, posh mixer drinks brand **Fevertree (FEVR:AIM)** and online clothing retailers **ASOS (ASC:AIM)** and **Boohoo (BOO:AIM)**.

The table shows the best performing AIM stocks over the last decade on a total return basis including dividends. Topping the list is construction industry equipment maker **Somero Enterprises (SOM:AIM)** which has recently been trading at decade highs after a series of upgrades.


Somero Enterprises leads our list of top AIM performers

TOP AIM PERFORMERS OF THE LAST DECADE

Company	Total return over 10 years (%)
Somero Enterprises	5,790
Best of the Best	4,730
Water Intelligence	3,480
Dotdigital	3,320
YouGov	2,480
CVS	2,400
Bioventix	2,360
IMPAX Asset Management	2,320
GB Group	2,080
Judges Scientific	1,750

Source: SharePad, data as at 19 August 2021.

Somero makes top of the line laser-guided concrete floor flattening equipment which is crucial for the perfectly flat floors required in e-commerce fulfilment centres, and has therefore benefited from the structural growth in that market.

Other firms to shine over the last decade include **YouGov (YOU:AIM)**, whose high-profile political polling operation overshadows an increasingly profitable and fast-growing data analytics arm, as well as specialist ESG-related asset manager **IMPAX Asset Management (IPX:AIM)** and cyber security firm **GB Group (GBG:AIM)**.

RECENT TOP PERFORMERS

More recent top performers, and in this selection we've restricted ourselves to those in the AIM 100 to screen out the micro cap stocks which can see significant volatility in the short term due to their size and limited liquidity, include advertising technology play **Tremor International**

(TRMR:AIM), which has nearly doubled year-to-date on strong trading momentum and recently reported record first half results (19 Aug).

BEST FTSE AIM 100 PERFORMERS YEAR-TO-DATE	
Company	**Year-to-date performance (%)**
Tremor International	98.0
Maxcyte	91.5
Kape Technologies	89.3
Renalytix AI	78.5
Strix	67.2
Seeing Machines	64.8
Victoria	59.5
Alpha Financial Markets Consulting	55.3
Brooks Macdonald	46.6
Focusrite	46.5

Source: SharePad, data as at 19 August 2021.

The company has a couple of name changes in its history having previously been known as Taptica and Marimedia.

Other strong performers so far this year include kettle components manufacturer **Strix (KETL:AIM)**, audio technology firm **Focusrite (TUNE:AIM)** and flooring outfit **Victoria (VCP:AIM)**.

Focusrite has benefited as musicians, both from the professional and amateur ranks, have been forced to record at home, creating demand for the company's hardware and software.

Expansion into providing equipment for areas such as podcasting and film and television dubbing has also supported strong growth.

CHEAPEST AIM STOCKS

The cheapest AIM 100 stocks on a forward PE or price to earnings basis (according to SharePad) include some resources plays which have seen their share prices depressed amid weak sentiment towards small cap oil and mining firms at a time when earnings are being driven higher by volatile but broadly strong commodity markets.

FTSE AIM 100 STOCKS WITH LOWEST FORECAST PEs	
Name	**Forecast PE**
Atalaya Mining	3.9
Serica Energy	4.8
Novacyt	8.9
Burford Capital	9.9
Randall & Quilter Investment Holdings	11.3
Cohort	15.6
Brooks Macdonald	16.1
Jadestone Energy Inc	16.2
FRP Advisory	16.7
Ienergizer	16.7

Source: SharePad, data as at 19 August 2021.

Other firms which look fairly inexpensive include one-time market darling, litigation finance play **Burford Capital (BUR:AIM)**.

Burford has endured a sticky few years amid profit warnings and an attack by short seller Muddy Waters which pointed to supposed corporate governance and accounting issues.

The fact the 10th cheapest stock on the AIM 100 has a PE of nearly 17 times shows this is not a market for outright bargains but is more tilted to growth as you would expect.

TOP YIELDING STOCKS ON THE FTSE AIM 100	
Company	**Forecast yield (%)**
Ienergizer	4.8
Urban Logistics REIT	4.6
FRP Advisory	3.6
Randall & Quilter Investment	3.0
Iomart	2.7
Brooks Macdonald	2.5
Serica Energy	2.4
Alpha Financial Markets Consulting	2.4
Cohort	2.3
Strix	2.3

Source: SharePad, data as at 19 August 2021.

This is also reflected in the list of highest yielding AIM 100 firms. The 10th highest yield is a little more than 2%, with most company's prioritising investment for further growth over generous dividends.

However, the simple fact of paying a dividend, even a modest one, demonstrates a level of maturity as a business in terms of profit and cash flow and signals confidence in the future outlook of the business.

TinyBuild is a next gen video games publisher and developer

tinybuild.com

US-based **tinyBuild (TBLD:AIM)** is a leading video game publisher and developer with major operations on both sides of the Atlantic. Founded in 2013 by Alex Nichiporchik (CEO) and Luke Burtis (COO), tinyBuild has since grown to a team of 166 staff and has published more than 40 games. Titles include hit games such as *Hello Neighbor* and *Totally Reliable Delivery Service*.

The company's games pipeline is the largest and the highest quality it has ever had, with 26 titles including the widely anticipated *Hello Neighbor 2* and new titles such as *Potion Craft* and *Pigeon Simulator* scheduled for release during 2021 and beyond.

tinyBuild's operates an own-IP focused model creating partnerships with developers. The company supports them in creating long-lasting IP that results in multi-game and multimedia franchises. This approach leads to long-term value creation and improved profit margins.

Furthermore, tinyBuild's back catalogue of titles contributes large amounts of recurring revenue (75% of revenue in 2020). tinyBuild has successfully extended the lifecycle of its key titles over several years by regularly releasing downloadable content, expanding games across various platforms, and generating additional revenue through licensing agreements.

tinyBuild publishes games on PC, console, mobile and streaming platforms, including Steam, Xbox, PlayStation, Nintendo, Apple, Epic Games and Google Stadia. Games are typically released first on PC and are launched on other channels depending on their potential. This two-stage release model ensures lower upfront development risk.

MULTIMEDIA STRATEGY EXTENDS THE LONGEVITY OF TITLES

tinyBuild has a multimedia strategy for its top games, expanding game-based IP into graphic novels, books, TV, film, merchandise and more. Multimedia products act as marketing and customer engagement tools that extend franchises' longevity while generating revenue themselves.

tinyBuild has successfully proven this strategy with its *Hello Neighbor* franchise which has sold over 1.6 million books. There are plans for an animated series (a pilot has over 40 million YouTube views), and tinyBuild has released merchandise such as toys and clothing through licensing agreements.

For developers, tinyBuild's differentiated offering is attractive. The company's support empowers its partners to develop popular games and attract talent. tinyBuild's background as a developer ensures that their needs are met and trusted long-term relationships deliver multi-year, multi-game franchises. Since 2013, tinyBuild has successfully 'acquihired' a number of development teams, and it has one of the lowest staff turnovers in the industry.

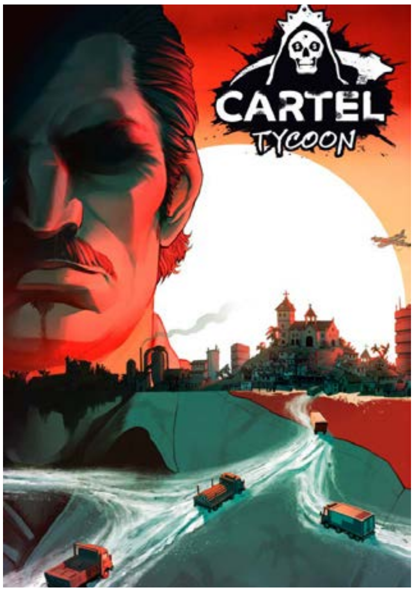
Over time, tinyBuild has built a platform to execute innovative, low cost yet high impact marketing campaigns, delivering strong engagement before a game's release. As a result, tinyBuild has accumulated over 5 billion content views on YouTube alone and has built relationships with over 10,000 verified influencers and a global following of 780,000 followers on social media.

tinyBuild's geographical footprint, through its development partners across five continents, ensures that it can continue to take advantage of the growing global video games industry. With a particular focus on developing markets, the company has access to high-quality talent and benefits from lower developer costs. Maintaining hubs in major cities facilitates relationships with key industry participants.

STRONG FINANCIAL TRACK RECORD

The company's approach and its growing portfolio has ensured a strong financial record. tinyBuild performed strongly in 2020, slightly ahead of the ambitious targets set by management, both in terms of games released and the development of new games.

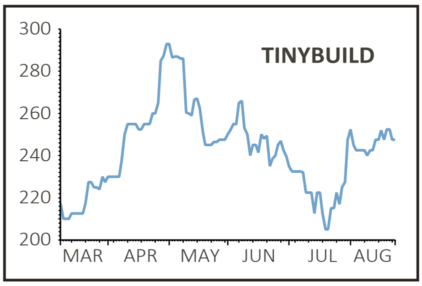
Five new titles were released, including Totally Reliable Delivery Service. tinyBuild saw total revenues increase from $27.9 million to $37.6 million, a growth of 35 % (2019: 13%). Operating profit increased to $7.6 million (2019: negative $2.7 million), mainly as a result of strong sales growth. In 2020, the net cash position increased from $17 million to $26.3 million, while the company accelerated investments in new titles.



In 2021, the progressive lifting of Covid restrictions across many countries led to a general expectation that this would impact video games sales. However, tinyBuild sales are progressing at least in line with expectations for the financial year 2021.

WELL-POSITIONED FOR THE FUTURE

tinyBuild is now well-positioned with a strong pipeline of new titles and a proven ability to attract, screen and market high-quality game franchises. The company's multimedia franchise model allows tinyBuild to extend the life of its IP, maximising return on investment. Its M&A strategy helps increase its IP portfolio, with an ambition for bigger, potentially transformative deals in the future.



THE FULHAM SHORE PLC

Post Lockdown – Fulham Shore powers ahead

fulhamshore.com

It has been an unprecedented 15 months for **Fulham Shore (FUL:AIM)**. The challenges have been varied and significant following the onset of the coronavirus pandemic, including changing regulations, the opening and closing of restaurants, restrictions on international travel and the associated elimination of tourism, and a dearth of office workers.

After many, many other false dawns, Fulham Shore has emerged as a strong survivor - a successful, cash generative, and growing restaurant business.

Fulham Shore owns and operates 55 Franco Manca and 19 The Real Greek restaurants, all of which offer dine in, delivery to home and take out services. The business will open its milestone 75th store at the end of August, when the 20th Real Greek restaurant opens in Norwich.

In line with the group's growth strategies and following successful recent openings, both brands have restarted an accelerated expansion programme. This roll out takes advantage of the availability of well-located premises at much improved rents, often with beneficial lease incentives. Within these favourable terms, each site costs on average £700k to buy and fit out and has a target three-year payback.

The group plans to open five more new Franco Manca and three The Real Greek restaurants in well-located sites throughout FY22, taking Fulham Shore's total estate to 82. The Group's long-term ambition is to operate over 180 Franco Manca sites (from 55 currently) and 50 The Real Greek sites (currently 19).

THE PROPOSITION

The Fulham Shore's 74 UK restaurants serve delicious, affordably priced food in enjoyable buzzy surroundings. **Franco Manca** was founded in 2008 and acquired by Fulham Shore in April 2015 - the business specialises in Neapolitan pizza made from slow-rising sourdough. The focus is on value for money, fresh ingredients and 'keeping it simple', an approach which ensures the menu is maintained at a low spend her head. Fulham Shore has grown the business from 11 to 55 sites in six years, serving over 100,000 pizzas to happy customers each week. Seven new restaurants were opened during FY20, and whilst this expansion programme was slowed to two new pizzeria in FY21 due to Covid-19, it has now restarted at pace.

Franco Manca has the ability to trade from a variety of property sizes and is building a strong UK-wide pipeline for FY2021/2022. Successful openings in Edinburgh, Glasgow and Manchester are testament to the business's expansion strategy.

Within the UK, the business also enjoys engagement with 250,000 customers through its loyalty app, which launched in late 2019.

Fulham Shore also plans to replicate its UK success internationally by franchising Franco Manca pizzeria all around the Mediterranean following a successful two-year experiment on the island of Salina in Italy which opened in 2018.

The Real Greek was acquired by Fulham Shore in October 2014 and prior to the acquisition had been trading successfully in London for 15 years. Fulham Shore has grown the business from six to 19 restaurants in seven years.

The Real Greek food centres on the delicious, healthy diet of the Eastern Mediterranean, staying true to the Greek ethos of food, family and friends. Ingredients and products are sourced mainly from Greece and Cyprus with

cold and hot mezes being a main feature on the menu.

A vegan menu was launched in Spring 2018 to great acclaim.

The expansion of The Real Greek continues outside its base of London and the Home Counties with a pipeline of new sites both within and outside the M25.

COMPANY HISTORY

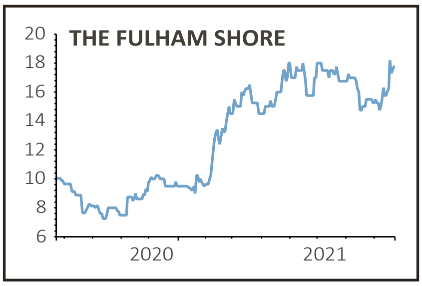
The Fulham Shore was incorporated in 2012 and admitted to ISDX Growth Market in February 2013. In October 2014 the company was admitted to AIM and acquired Kefi Ltd, the owner of The Real Greek. In April 2015 Fulham Shore acquired Franco Manca, which at that time comprised 11 pizza restaurants.

The business's growth strategy focuses on driving profits through expanding both brands, throughout the UK, whilst both businesses maintain their value for money menu propositions. Franco Manca is £10 a head and The Real Greek is £16 a head.

Revenue, headline EBITDA (earnings before interest, tax, depreciation and amortisation) and operating cash flow have all increased, year on year save for FY21 due to the impact of Covid-19.

Today, Fulham Shore is well funded with a net cash position and has significant headroom in its banking facilities to support its expansion plans alongside internally generated cash flow. As of August 2021, the company is capitalised at around £100 million.

Looking ahead, the business's focus on consistency, value for money, food quality and provenance, combined with its well-invested estate and strong pipeline of new locations, stands it in strong stead for resumed rapid growth and an exciting future.



TEAM is building for success in wealth management

teamplc.co.uk

Jersey, Channel Islands based and registered holding company **TEAM (TEAM:AIM)** is engaged in wealth and asset management.

TEAM is a listed acquisition vehicle building a transformational and leading onshore and offshore wealth management business delivering increased shareholder value by creating a differentiated business of scale through the opportunities presented by the current market dynamics.

As a new business, material growth is achievable through opportunistic and nimble investments in suitable businesses, while the medium and longer-term growth expectations from the wider wealth and asset management market could provide sustained revenue growth for the group.

The management has proven sector successes, the infrastructure and funding support from existing shareholders including leading institutional investors. TEAM will be a consolidator in the highly fragmented broader wealth market.

TEAM is a scalable hub ready for expansion.

MANAGEMENT TEAM

The company was founded by experienced former investment banker, Mark Clubb. Clubb currently owns shares to the equivalent of 17.58%, having recently further added to his holding on two occasions and is executive chairman.

The company was admitted to the London Stock Exchange AIM market in March 2021 whilst also raising £7.8 million of new capital from a mixture of Institutional Investors such as Schroders Asset Management (9.58%) and Canaccord (7.9%), together with numerous experienced private individuals or their entities.

Ahead of the listing, Clubb was joined by Matthew Moore, as chief financial and operating officer. Moore has extensive experience and success within the industry including the advisory segment having fulfilled similar senior roles at Close Brothers and more latterly, Ascot Lloyd.

The remainder of the board are three high quality and experienced independent non executives. These being, Philip Taylor, formerly of PWC, Hawksford and Coutts

Offshore; David Turnbull, formerly, Executive Committee member at Salomon International (Citigroup) and currently chairman of Fiduciary Settlements Ltd; and Michael Gray, formerly of RBS International and currently a non-executive director of Triton Investment Management Ltd, GCP Infrastructure Investments and Jersey based trust company, JTC.

The listing enabled new shareholders to invest, provide long term capital and an acquisition currency. Further it raised public awareness and enabled an incentivization mechanism for current and future senior management.

CONSOLIDATING THE SECTOR

As a consolidator, TEAM has identified the sector as having attractive long term secular growth in a currently fragmented market, both onshore and offshore.

Demographics is a key attraction enjoyed by the sector together with client "stickiness" and the focus on savings meaning earnings have been predictable and stable.

Times are changing, as observed by Clubb: 'We are entering the largest inter-generational transfer of wealth ever seen. The European Central Bank approximates half of all wealth in Europe is currently controlled by people over the age of 55.

'That's more than £9 trillion. I would note that frequently, beneficiaries change advisor on inheriting.'

He added: 'The next generation of wealthy are also emerging from new industries, principally in technology. They require a differentiated and personalized investment service aligned to their core values and expectations. The same holds true of those who are inheriting.'

Substantial increases in regulation means many smaller managers struggle with this environment. Against this, many larger companies have become cumbersome and bureaucratic with legacy operating and management systems and practices. Many businesses have not invested or taken advantage of available technology to modernise.

There is polarisation and as large players strive to improve profit margins through cost measures from their absolute scale, there is space for boutiques of scale to thrive.

There has been absolute growth of personal wealth, increased personal accountability for individuals' financial futures; and the generational transfer of wealth through inheritance, which is challenging the existing incumbents business models and share of market.

PLENTY OF OPPORTUNITIES

There are many discretionary fund management companies, often founder owned and managed that are subscale and looking for the next step in their development. TEAM can provide that.

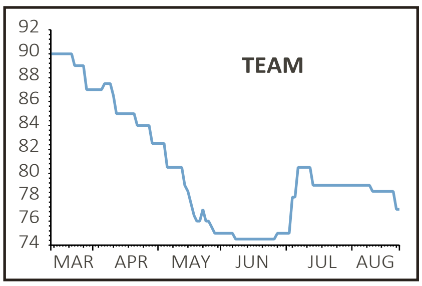
TEAM believes that unencumbered by the past and with a modern, fit for purpose approach there are many opportunities both organic and by acquisition to responsibly build a growing and profitable business by delivering cost and revenue synergies, and leveraging off an increasing scale and breadth of services. This could include ancillary complementary services such as specialist funds, cash management and corporate services.

TEAM is confident efficiencies and margin expansion are available but require disciplined management, effective regulatory compliance, increased use of technology and cost control.

TEAM's sees opportunities in complementary locations within the Crown Dependencies and other offshore centers but also onshore (UK). The UK wealth management market is worth circa £2 trillion in assets under management.

TEAM has a pipeline of potential acquisition targets that range in size from £1 million to £60 million, both listed and private. It has an extensive deal origination network via its management and board, shareholders and advisors.

Further, its platform will be appealing in the recruitment of both individuals and teams.



OFFSHORE MARKET FOCUS

TEAM's acquisition history has thus far been focused on the offshore market. It notes that Jersey alone accounts for some £600 billion of private wealth.

TEAM Asset Management was the first acquisition. The 'lifestyle' business had assets under management (AUM) of £140 million (January, 2020). Since then AUM has grown to £286 million (31 March 2021) clearly demonstrating management ability to grow.

July this year, JCAP Treasury Services acquired, a leading Jersey based provider of cash management services, focused on improving the return and mitigating the risks associated with the management of cash for institutions, professional advisers, trustees and high net worth individuals with over £1.3 billion in assets under advice.

The total paid is up to £2.95 million or a price to earnings multiple of 7.9 times the 2020 earnings.

JCAP has clear synergistic revenue growth opportunities through providing cash management services to the TEAM client base.

Being a listed entity with the management team, transparency, corporate governance and access to future capital makes TEAM very well placed to succeed.

TEAM is building a new wealth, asset management and complementary financial services group.

Warehouse REIT
Creating opportunities and delivering results

warehousereit.co.uk

The UK warehouse and logistics market has become centre stage, being the stand out asset class within the real estate sector, experiencing investor interest from across the globe with in excess of £10 billion of stock changing hands last year.

This recent trend, which has emerged over the last five years, has been driven by the growth of e-commerce, now accounting for around 29% of UK market share. The competition for stock has resulted in yield compression yet the spread over the 10 year gilt yield remains at or around the long term average. The warehouse/industrial sector has been the outstanding performer over the last five, three and one year periods; the market dynamics suggest it is well placed to continue to hold the top spot.

During 2020, despite the impact of the Covid-19 pandemic, take-up of UK warehouse space exceeded 50 million square feet, exceeding the previous record year set in 2016, leaving UK wide vacancy just over 5%, equivalent to around 30 million square foot.

27.7%
TOTAL ACCOUNTING RETURN
Movement in EPRA NTA plus dividends paid in the period.

GROWING DEMAND

Last year, Knight Frank Research reported that every £1 billion of on-line expenditure requires 1.35 million square foot of warehouse space and went on to conclude that there will be demand for another 92 million square feet over the next three years. For the last three years completions of new development space has run at or around 20 million square feet.

Even before demand from other sectors is taken into account, there seems little hope of the market providing sufficient space to meet this demand. Therefore, it seems very likely that the imbalance of insufficient supply available to meet occupational demand will continue, giving rise to rental growth resulting from operating companies competing for space. The consensus market forecasts predict 2.4% per annum rental growth for the next five years. However, many tenants operate very low effort rations (amount of rent as a percentage of turnover) suggesting that rents are very affordable at prevailing levels so maybe the growth forecasts are light?

STRONG PERFORMANCE

Against this backdrop, **Warehouse REIT (WHR:AIM)**

6.2p
DIVIDEND PER SHARE
Dividends per share for the year in-line with target.

has experienced a very strong year, driving a total accounting return of 27.7% with like-for-like valuation growth of 18.8%.

Much of the performance has come from a realisation that the portfolio of £792.8 million has produced pandemic proof income with rent collection in the year achieving 98.6%.

Average rents across the portfolio are still only £5.51 per square foot and the valuation equates to just £90.00 per square foot capital value being less than the cost of replacement so effectively the land is in for nothing.

With an economic moat preventing new supply of warehouse stock at the portfolio prevailing passing rent, the portfolio is well placed to continue to participate in the structural change of ongoing occupational demand. As asset manager, Tilstone Partners has worked hard to ensure that the portfolio of assets are all located in what it deems to be economically relevant locations which, in its opinion, will outperform the wider market.

RAISING FUNDS

During the financial year ending March 2021, Warehouse REIT had two equity events raising £199 million of new equity which has been deployed into assets generating a blended net initial yield of 6% from locations such as Milton Keynes, Rugby and Cambridge.

Amazon now accounts for in excess of 8.7% of the portfolio income from four separate warehouses; the top 10 tenants account for just over 30% of the total rent roll with other e-commerce operators including Direct Wines (part of Laithwaite's), JLP, TaylorMade (selling via Amazon), **Victorian Plumbing (VIC:AIM)** (the subject of a recent IPO),not to mention the third party logistics firms whose business is expanding as the number of parcels delivered continually rises.

With like-for-like rental growth of 2.9% for the 12 months to March 2021, Warehouse REIT continues to outperform its valuer's estimate of ERV (estimate rental value) by, on average, 9% a year. As well as driving value through active asset management activity, the REIT's asset manager is looking at the development opportunities on under-utilised land within the current assets.

Whilst still relatively early days, a number of planning permissions have been obtained allowing the space to be marketed with a view to obtaining pre-letsprior to commencement of construction on site. With this approach to minimising risk, the REIT will target returns of 200 basis points over and above those available from buying comparable built stock.

The new-build schemes also present an important opportunity to drive the sustainability credentials of the portfolio with a focus on renewable energy, low energy consumption and buildings with high grade EPC ratings, ensuring that the whole portfolio remains economically relevant and that no assets are stranded.

FURTHER ACQUISTIONS EYED

With year end gearing of just 24.6%, the REIT is well placed to make further near-term acquisitions, seeking to grow earnings per share, as well as continuing to strengthen the portfolio KPIs (key performance indicators). Warehouse REIT commented: 'Tilstone Partners and the Warehouse REIT board continue to hold £28 million worth of shares in the REIT, what better endorsement of their commitment to the future of the company's performance.'