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SHARES

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How the index might evolve in 2022 and beyond

MARKET SELL-OFF

The key factors troubling investors

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

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% Total Return

12 months ending August	2021	2020	2019	2018	2017
Fundsmith Emerging Equities Trust Price	+27.7	-1.0	-9.7	+9.5	+3.6
AIC Global Emerging Markets Sector	+31.7	-11.2	+1.3	-1.2	+18.2

Source: Financial Express Analytics

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Gas, shipping, coal: hot themes drive investors wild

Investors are watching the news like a hawk for big events that could influence share price movements

Investors have been spoiled for themes that could act as share price catalysts of late.

Sometimes you need to act quickly as often the big share price movements have already been made before the theme hits the mainstream news. That shouldn't stop you looking, as many trends can remain intact for longer than you think.

There are currently some clear trends relevant to the stock market, including a surge in prices connected to natural gas and shipping. **Tufton Oceanic Assets (SHIP)** has been a stock to play the latter trend with 40% of its portfolio in container ships. Market dynamics have worked in its favour and the shares are up 45% year-to-date.

If you're interested in playing a theme, ask the following:

- Is this a one-off event?
- If a product or service is going up in price, which stocks will benefit?
- Will this price hike cause the end-user to seek alternatives? If so, who will benefit?
- Once you've found a relevant stock, how much good news is already in the price?

Serica Energy (SQZ:AIM) has been a go-to stock to play higher gas prices. Indeed, the company spelled it out in a statement on 2 September saying: 'We are immediately benefitting from the current high gas prices.'

Shares in Serica opened at 169p on the day of that comment and they've since risen to 187.4p, a gain of 11% as gas prices have continued to appreciate.

Investors sometimes must take a leap of faith when trying to play a live topic such as rising commodity prices. It's always worth looking at the health of a company linked to this theme and asking if it would still prosper if the current share price catalyst fades away.

Many people risk losing money fast if they back a highly indebted business that only looks good if prices stay much higher permanently. Most of the time with commodities, prices are liable to pull back after a strong run as supply and demand balance out. Be prepared to reconsider the trade once the trend loses momentum.

The spike in natural gas prices has forced several fertiliser companies to reduce production due to concerns about profit margins. Supply shortages could lead to farmers being short of fertiliser which could negatively affect crop yields and therefore hurt food supplies. Markets will be watching every move in this space, looking at alternative fertiliser products and the companies that make them.

Coal prices are shooting up thanks to increased industrial activity globally and coal being an alternative power source to gas as prices in the latter skyrocket. Interestingly, **Anglo American's (AAL)** coal spin-off business has not been the flop on the stock market that so many people predicted. **Thungela Resources (TGA)** has tripled in value since June.

Finally, energy storage is likely to become a hotter theme following disruption to energy supplies caused by a fire at Britain's main electricity subsea cable. Their share prices may not be soaring now, but such an event could prompt investors to look more closely at battery storage funds such as **Gore Street (GSF)** and **Gresham House Energy (GRID)**.

By **Daniel Coatsworth** Editor

Markets see red as list of investor concerns grows

Fears of contagion from China sell-off collide with worries over UK consumers

Major stock market movements

INDEX	5-DAY CHANGE
Hang Seng (Hong Kong)	-4.3%
Dax (Germany)	-2.6%
Nikkei 225 (Japan)	-2.4%
S&P 500 (US)	-2.0%
FTSE 100 (UK)	-0.9%

Source: Google Finance, to 4.20pm UK time, 21 Sep 2021

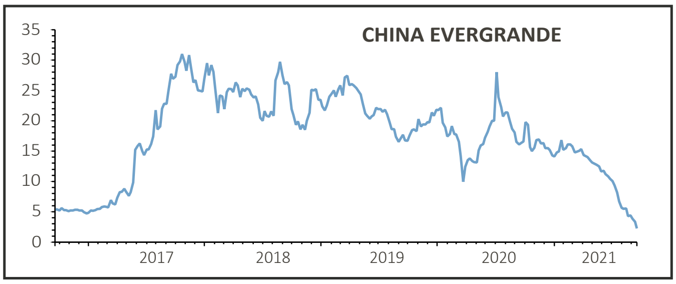
The abrupt recent sell-off in global markets may have seemed to have come out of nowhere, but problems had been brewing for months and it only needed investors to blink for prices to turn down.

Fears over inflation, tightness in the supply chain and a subsequent slowdown in growth have bubbled below the surface in developed markets all summer. These were joined this month by worries over the health of heavily-indebted Chinese property firm Evergrande, which we flagged in early August.

HOUSE OF CARDS

While investors' attention was focused on Chinese tech stocks and the authorities' increasingly aggressive scrutiny of their operations, in the background property giant Evergrande, the biggest issuer of high-yield bonds in Asia, looked to be sliding towards insolvency.

This week its shares fell to an 11-year low, bringing their year to date loss to more than 85%, wiping out around HK$200 billion of investors' money. However, there are fears Evergrande's bondholders and lenders could face even greater losses if the firm defaults.



The developer's 8.25% US dollar bond due next year is trading at 25% of its face value, suggesting there is just a one in four chance of investors getting repaid, while interest payments on two more of its bonds due today (23 Sep) looked unlikely to be met as we went to press.

Debt rating agency S&P Global said the firm is 'on the brink of default' and will only be rescued by Beijing if there is 'a far-reaching contagion causing multiple major developers to fail and posing systemic risks to the economy'.

COLLATERAL DAMAGE

Already, shares and bonds in other Chinese developers have slumped, as have the high-yield bonds of non-property related Chinese firms, and even some high-grade dollar bonds have fallen sharply.

Shares in blue-chip Chinese firms such as Ping An, the country's largest insurer and a heavily-weighted stock in most regional exchange traded funds, have also suffered in the fall-out from Evergrande.

Analysts at Citigroup believe the Chinese government will take action to buy the company time and engineer a managed restructuring of its debt, to avoid a systemic collapse, but in the process some banks may have to go to the wall.

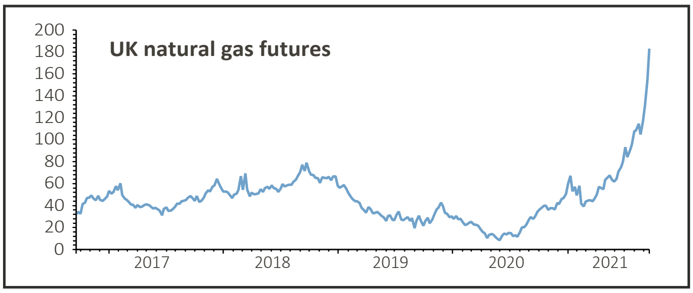
The longer-term implications are that growth in the property sector – and by extension the construction sector – will be closely controlled, meaning demand for raw materials such as iron ore, copper and aluminium will slow.

According to analysts at Liberum, the Chinese property sector accounts for 20% of global steel demand, 20% of copper demand and just under 10% of aluminium demand, which means, in their words, Evergrande is 'potentially a big deal' for commodities.

DOMESTIC CONCERNS

Here at home, investors have been unsettled by the rising cost of food, fuel and now heating their homes. The latest blow is a spike in natural gas prices caused by a combination of low storage levels, a lack of wind-generated power and a drop in imported electricity.

Gas prices have soared 250% this year as a harsh winter last year put pressure on supplies, while this summer has been the least windy since 1961 according to the Met Office. Compounding this, a fire at a substation in Kent knocked out the interconnector which supplies nuclear-generated electricity from France.



As a result, 15 million consumers are facing a hike of 10% or more in their energy bills from next month as big suppliers whack up their prices. Meanwhile, small suppliers who promised consumers cheaper bills are going out of business as they haven't been able to pass on higher prices.

KNOCK-ON EFFECTS

The problem doesn't end there, however. High gas prices have led a major chemical firm to close two of its UK fertiliser plants, halving the amount of high-grade CO_2 the UK produces.

This impacts the food industry where the gas is used in the production of chicken and pork and in packaging fresh and frozen food for supermarkets, giving products a longer shelf life. It is also vital for the hospitality industry as it is used in soft and alcoholic drinks and in dispensing beer in pubs.

The Food and Drink Federation has warned the effects of the CO_2 shortage 'may be felt through the end of the year and particularly over Christmas'.

The medical sector also uses CO_2 for surgery and to store drugs, which has raised the spectre of the roll-out of Covid booster jabs and vaccinations for teenagers being delayed.

CONFIDENCE IS KEY

Economists fear that consumers, who are already feeling the pinch from rising food and energy prices, will rein in their spending if they are worried about higher bills and a 'winter of discontent'.

It is possible for millions of individual 'micro' decisions to have a major effect on the 'macro' outlook. If confidence takes a knock, that feeds through to the economy and ultimately to the stock market, resulting in the kind of sell-off we have just witnessed. [IC]

AstraZeneca breakthrough makes up for Covid vaccine setback

Positive results for breast cancer drug bode well for patients and the business

Many of the Covid-19 headlines that pharma giant **AstraZeneca (AZN)** has attracted over the past 18 months haven't really had much impact on its profits, but one recent development could potentially have a huge impact.

Results from the latest Phase III trial showed cancer drug Enhertu, which was licensed from partner Daiichi Sankyo (50/50 profit split), reduced the risk of disease progression or death in breast cancer by 72%.

AstraZeneca described the results in no uncertain terms, saying 'these unprecedented data represent a potential paradigm shift in the treatment of HER2-positive metastatic breast cancer.'

Enhertu is a type of antibody drug conjugate which delivers a chemotherapy payload to cancer cells via a linker attached to an antibody that binds to a specific target.

Before the latest trial results were known, investment bank Berenberg estimated that the antibody drug conjugate market for cancer patients could grow from $3 billion currently to $15 billion by 2025, principally driven by the success of Enhertu.

The bank estimated peak revenues for Enhertu of $9 billion across different types of solid cancers which it reckoned could be worth around 574p per share on a risk-adjusted basis to AstraZeneca.

Given the success of the latest trial readout, it wouldn't be surprising to see those numbers upgraded to take account of the implied reduced risk.

While that bodes well for AstraZeneca, investors might wonder why the company has been ignored in the latest talk on Covid vaccine booster jabs.

The Joint Committee on Vaccination and Immunisation has recommended a mix-and-match approach to the booster roll-out, using the Pfizer or Moderna vaccines, potentially leaving AstraZeneca out in the cold.

Investors shouldn't automatically assume that the AstraZeneca/Oxford vaccine won't work as a booster, according to Adam Barker at Shore Capital.

He told *Shares* it might be the case that the data isn't yet sufficient to indicate how well the AstraZeneca/Oxford vaccine works as a top-up jab.

Mixing vaccines can promote a stronger immune response via something called 'heterologous prime boosting'.

Also, the UK Government might have more supply of the Pfizer vaccine which it can use to undertake a swift booster roll-out, a key consideration.

Finally, the Government may be prioritising the AstraZeneca/Oxford vaccine for low-income countries given it is cheaper and is easier to transport.

The main justification for embarking on a booster programme is to prevent the NHS from getting overwhelmed and ultimately save lives. However, there isn't conclusive evidence that boosters for vulnerable groups prevent hospitalisations. [MGam]

Shell picks up pace with transition away from oil and gas

The company plans to funnel $9.5 billion from selling assets into shareholder returns and paying down debt

The $9.5 billion sale of assets in the core oil producing Permian basin in the US suggests **Royal Dutch Shell (RDSB)** is doing more than paying lip service to the transition away from fossil fuels.

The transaction, with the 175,000 barrels of oil equivalent per day of output being sold to US peer ConocoPhillips, demonstrates the rupture between North American and European energy firms when it comes to the energy transition.

Shell has its feet to the fire on this issue after a May 2021 decision by a district court in the Netherlands which effectively pushed the company to speed up its plans to cut carbon emissions.

A good chunk ($7 billion) of the proceeds from the sale will be returned to shareholders, with broker RBC Capital Markets expecting this to take the form of share buybacks.

The remainder will go towards paying down debt. Completion on the deal is expected in the fourth quarter. Berenberg analyst Henry Tarr commented: 'We expect the announcement to be taken positively, with the sale boosting shareholder returns materially, reducing carbon emissions and reducing debt levels.

'The sale will, however, leave the company with a smaller asset base with which to cover and grow the dividend.'

This speaks to the dilemma facing the big integrated oil and gas producers as they look to pivot into renewables while protecting their balance sheets and funding dividends. [TS]

Stagecoach founders' share sale may have triggered takeover move

National Express is trying to buy its rival

THE DECISION IN April by the founders of bus and coach group **Stagecoach (SGC)** to start selling down their 27.1% stake has led to a takeover approach by transport rival **National Express (NEX)**.

Brian Souter and his sister Ann Gloag said five months ago that they would reduce the family ownership to 5% over the coming decade.

In doing so, they removed a major hurdle for any would-be suitor by declaring their intention to sell down the bulk of their holding.

National Express has acted quickly and made an all-share takeover approach for Stagecoach, saying it is prepared to pay 0.36 new shares for every Stagecoach share.

This deal, which is still subject to a formal bid, would see Stagecoach shareholders own a quarter of the combined group.

National Express wants to buy the business to increase its position in growth areas such as private coach hire and corporate transport. Running the businesses as one would also generate operational synergies and economies of scale benefits.

Jefferies analyst Becky Lane says that while National Express' all-share offer looks financially attractive with double-digit earnings accretion and enables the buyer to de-lever quicker, she believes investors will have questions around competition approval, future regional bus growth and the coach opportunity rationale. [DC]

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A brighter outlook for property makes this 5% yielding trust a bargain

Standard Life Investments Property Income has a great track record

The outlook for UK commercial property has improved in the wake of the roll-out of vaccines and as workers return to the office. However, this brighter picture and a strong historic track record is not reflected in the current discounted valuation at **Standard Life Investments Property Income (SLI)**.

The recovery in real estate as we emerge from the pandemic is likely to be uneven and we think buying this investment trust, which trades 17.1% below its net asset value and offers a near-5% yield, is a smart way to play property. Steered by Jason Baggaley for the past 15 years, it has delivered excellent returns over the long term.

Investec says: 'Over 10 years, the NAV total return compound annual growth rate is 10%; this is materially higher than the annualised NAV total returns of 4.6% and 3.3% recorded by the AIC property direct UK commercial sector and IA open-ended UK commercial property sector respectively.'

HOW HAS IT BEEN SO SUCCESSFUL?

The success of Standard Life Investments Property Income has been built on several strands. These include clever management of the portfolio, namely buying and selling assets to position the trust to capitalise on shifting trends.

For example, the portfolio has seen increased exposure in recent years to logistics assets which are increasingly in demand from a growing e-commerce space. This shift was accelerated by the pandemic but is something the trust picked up on some time ago.

As of 30 June 2021, the trust had a 50.7% weighting towards industrial assets. Its exposure to structurally challenge high street retail is just 2%.

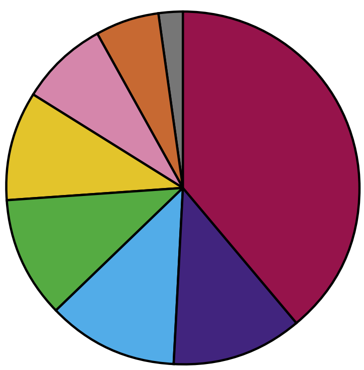
STANDARD LIFE INVESTMENTS PROPERTY INCOME

BUY

(SLI) 72.5p

Market cap: **£288 million**

SLI Property Income – portfolio breakdown



Rest of UK industrial	39%
South east offices	12%
South east industrial	12%
Rest of UK offices	11%
Retail warehouse	10%
Other	8%
Central London office	6%
High street retail	2%

Source: Aberdeen Standard Investments, 30 June 2021

There has also been an emphasis on asset management, encompassing initiatives like upgrading and reletting assets to boost their value.

Baggaley's commitment to remaining on the front foot is reflected in a well-developed ESG (environmental, social and governance) strategy. The trust recently acquired 1,447 hectares of rough grazing and open moorland in the Cairngorm national park for £7.5 million as part of its commitment to achieving net zero status.

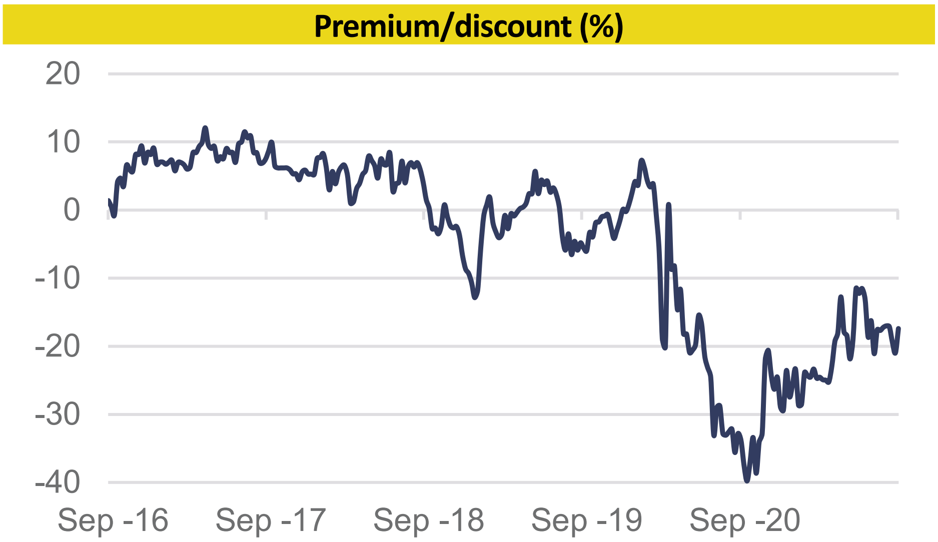
He tells *Shares* that the way sustainability is coming to the fore 'is a really interesting feature of the recovery'.

ESG FOCUS

'It's not just about the E of ESG either. Obviously environmental performance is really important but it's also about the appeal of the building to staff,' Baggaley adds. 'If you want to encourage someone who is sat on the sofa (at home) to sit at their desk (in the office) you have to create the right environment.'

When *Shares* spoke to the fund manager, he had just come from a three-hour meeting with the trust's asset management team to look at all the office assets and determine what would be required to bring them up to modern standards, how much it would cost and whether it is possible.

'We will have to be more discerning about what assets we hold. We sold four offices this year, in each case they were perfectly decent properties which had performed well but it was about how much we were going to have to spend in three to four years,' he says.



Source: Refinitiv, Investec

This refining of the portfolio is also being pursued in the industrial component where some multi-let industrial assets were recently offloaded. Baggaley saw these assets as more vulnerable to economic blowback from the pandemic, given a bias towards small and medium-sized tenants.

FINANCIAL FIREPOWER

At 30 June 2021, the loan-to-value was 17.6%, among the lowest of its immediate peer group. This leaves it with firepower of £80 million to put towards new investments.

According to Baggaley this money won't be put to work in areas like high street or shopping centre retail which in his words still seem 'very challenged'.

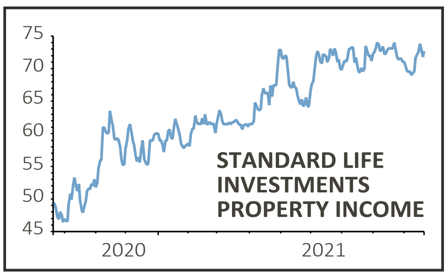
The focus instead will be on retail warehouses, such as a West Midlands asset in its portfolio leased to B&Q for £19.5 million in 2020.

Baggaley is also looking at speculative developments in the logistics space, which arguably carries greater risk than buying already constructed assets but can generate higher yields and allow units to be built to certain specifications to factor in things like energy efficiency.

The investment trust has also allocated cash to share buybacks, buying 7.4 million shares in the first half of the year, which should help narrow the current discount to NAV.

For many years before the pandemic, Standard Life Investments Property Income traded at a premium to net asset value, so the current large discount is somewhat of an anomaly.

Investec comments: 'A strong fundamental proposition is enhanced by the current discount, which, given the track record, we struggle to reconcile. We expect the company to return to a premium rating in the months ahead.' [TS]



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Louis Hall, CEO & Oliver Gilchrist, CFO

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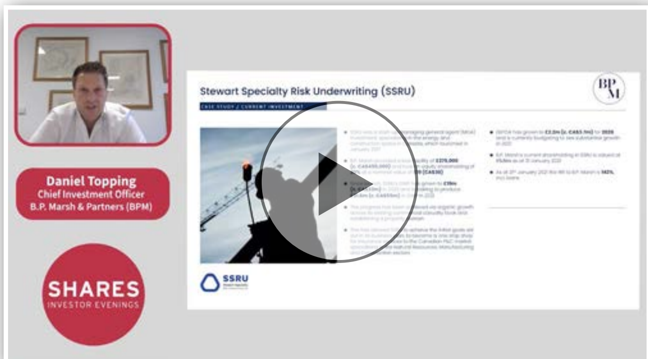

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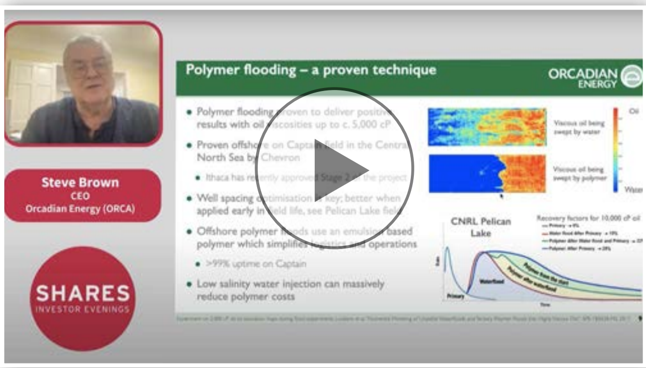

Orcadian Energy (ORCA)
Steve Brown, CEO

Orcadian Energy is a North Sea focussed oil and gas development company. Its key asset is the 100% working interest in the Pilot oilfield.

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Want Asia exposure but worried about China? Try Vietnam

VinaCapital Vietnam Opportunities Fund has a strong track record and trades on a wide discount which means double the appeal

As Chinese markets continues their collapse, driven initially by the heavy-handed treatment of technology stocks by the authorities and more recently by a collapse in over-leveraged property stocks, investors seeking for better alternatives in Asia should look at Vietnam. **VinaCapital Vietnam Opportunities Fund (VOF)** is a good way to invest in the market.

Previously regarded as a 'frontier' market, Vietnam has recently been upgraded to emerging status by MSCI as it treads the same well-worn path to prosperity as other Asian countries like Taiwan and South Korea.

Thanks to the pace of technological change, the transformation of Vietnam from frontier to emerging and ultimately developed market is likely to be much quicker.

Half of the population of 97 million people is under 35 years of age, and as this cohort joins the expanding middle class over the next five to 10 years the potential for economic growth is vast. The country has attracted strong direct investment from companies in China and around Asia as well as from the US and Europe.

VINACAPITAL VIETNAM OPPORTUNITIES FUND
BUY
(VOF) 460p
Net Assets: £983 million

According to the World Bank the economy is expected to grow by 4.8% this year, although this is two percentage points lower than originally estimated as government measures to contain Covid have hit consumer spending.

While vaccinations have been accelerated, Vietnam has the strictest lockdown measures in South East Asia with all non-essential businesses shut in the capital Ho Chi Min City.

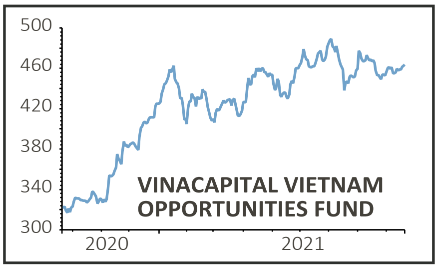
This pause in growth, and in the sharp rise of the Vietnamese market since March last year, is an opportunity for investors to get on board before the next leg up in 2022 when the economy is expected to resume its pre-pandemic growth rate of 7%.

VinaCapital Vietnam Opportunities Fund mainly invests in companies which are geared to domestic growth and the rise of the middle class, for example property companies and consumer goods producers.

As well as quoted stocks, the fund is plugged into unlisted companies and private equity opportunities. It has benefited from the move from private to public in various holdings, creating substantial gains. Shareholders are also getting dividends, with a 2.1% historic yield.

Despite generating more than double the returns of the MSCI index over the last five years, the shares are trading at a discount of more than 20% to their net asset value, which is more a reflection of investor nervousness towards Asia and emerging markets in general rather than a judgement on Vietnam or the fund.

The ongoing charge is 1.72%, higher than most global funds and reflecting its specialist skills in finding opportunities in the country. [IC]



TIME FOR VALUE?

Temple Bar Investment Trust Plc is a well-established investment company, with a new portfolio management team at the helm. RWC's UK Equity Income team, was appointed to manage the trust in November 2020. Led by Nick Purves and Ian Lance, the team employs a disciplined, value-oriented investment approach.

Value investing has a very long history of outperformance, but it has struggled in the growth-dominated markets of the last decade. Recent market behaviour suggests this may be beginning to change.

The Temple Bar Investment Trust is well placed to benefit should this rotation into UK value stocks continue.

For further information, please visit templebarinvestments.co.uk

"In my 30-year career as a fund manager, there have been two occasions in which a market dislocation has created an opportunity for investors to potentially make very attractive, outsized returns. The 2000 dotcom boom, and in 2009 following the global financial crisis. I believe we are now witnessing a third."

Ian Lance, Portfolio Manager

Temple Bar Investment Trust PLC | RWC

No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment. Investments can go up and down in value and you may not get back the full amount invested. RWC Asset Management LLP is the appointed portfolio manager to the Temple Bar Investment Trust Plc and this is issued by RWC Partners Limited. Both firms are authorised and regulated by the Financial Conduct Authority.

LINDSELL TRAIN UK EQUITY FUND
(B18B9X7) 507.7p

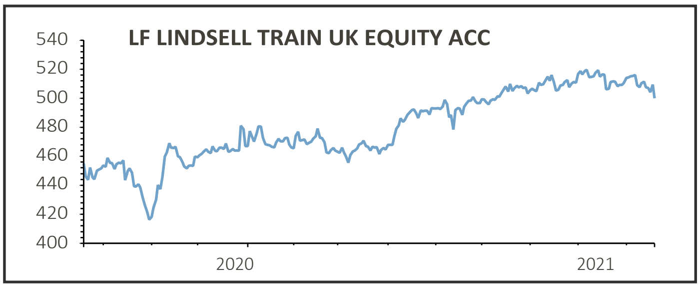
Gain to date: 9.6%
Original entry point:
Buy at 463.1p, 4 March 2021

A TILT BACK towards quality stocks earlier this year as the vaccine-led value rally ran out of steam has supported a recovery for **Lindsell Train UK Equity (B18B9X7)**. However, exposure to a brewing Chinese crisis could make life more difficult for the fund in the coming months.

Longer term we believe the Nick Train-steered collective's emphasis on quality will pay off for holders of the fund. However, in the short term, big positions in luxury brand **Burberry (BRBY)** and French spirits group Remy Cointreau could come under pressure given their exposure to China, where sentiment is weakening.

In his latest commentary on the fund Nick Train observed: 'An important reason for our holdings in Burberry and Remy is that the premium/luxury nature of their products not only allows them to participate in global growth (as they have all this century), but also protects shareholders against the effects of inflation.

'The brands confer pricing power. Certainly, both companies, particularly Remy, have been able to increase prices in 2021.'



SHARES SAYS:
Investors should note the risks associated with China-related exposure and growing market concerns that Chinese consumer spending could disappoint in the near-term. That said, the fund is still a long-term buy for patient individuals. [TS]

EQUALS
(EQLS:AIM) 63.99p

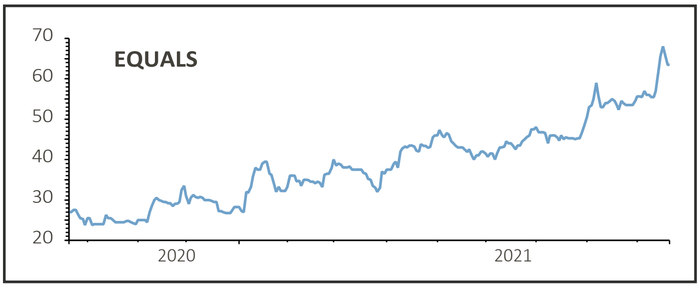
Gain to date: 48.8%
Original entry point:
Buy at 43p, 29 April 2021

PAYMENTS GROUP **EQUALS (EQLS:AIM)** reported half year numbers that were ahead of analysts' expectations. Group revenue increased by 23% to £16.9 million. Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation), increased by 128% to £1.6 million.

Third quarter revenue to 10 September was £9.2 million, equating to a 58% increase year-on-year. A key factor behind this outperformance is Equals Solutions, a new multi-currency product aimed at larger corporates. Although the platform was only launched in June it has attracted new customers and has secured a strong pipeline of orders. In Q3, it generated £1.2 million of revenue, 13% of the group total.

The outlook is robust and will be driven by the confluence of two factors. First, the business-to-business revenue continues to grow as the group's investment in technology in previous years is now bearing fruit. Second, the easing of travel restrictions will boost the consumer business.

Following the update, Canaccord Genuity says it now expects 2021 revenue to be 6% higher than its previous forecast and 2022 to be 5% higher. 'Positive operational gearing implies that our earnings per share forecasts are upgraded by 8% in each year,' it adds.



SHARES SAYS:
Keep buying. [MGar]

ALLIANCE PHARMA
(APH:AIM) 104p

Gain to date: 45.3%
Original entry point:
Buy at 71.6p, 3 October 2019

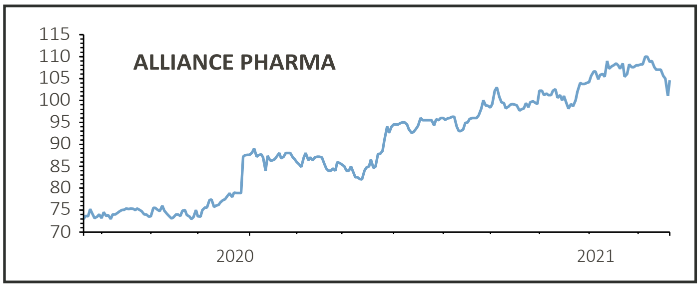
Pharmaceutical specialist **Alliance Pharma's (APH:AIM)** recent first-half results (21 Sep) demonstrate the strength of the business with like-for-like revenue growth in the consumer healthcare division (70% of the business) and prescription medicines division both up 12% year-on-year.

The star performer in the first half was scar prevention and treatment brand Kelo-cote which saw like-for-like revenues up 62% driven by strong demand in China.

The increasing propensity of Chinese customers to buy their health products online was a key driver and the company estimates that the market has the potential to grow by a compound annual growth rate of 17% a year out to 2025.

The company signed a new distribution deal in August which it said gets it closer to the customer and provides greater control of its distribution chain in China.

The 2020 Amberen acquisition has been fully integrated and is delivering in line with management expectations. After launching the Perimenopause treatment in June, the company's market share has doubled to 7%, demonstrating the potential US opportunity.



SHARES SAYS: ↗
We believe that Alliance Pharma's growth potential remains undiminished while the shares still trade at a discount to peers according to Numis. [MGam]

JPMORGAN JAPANESE
(JFJ) 723p

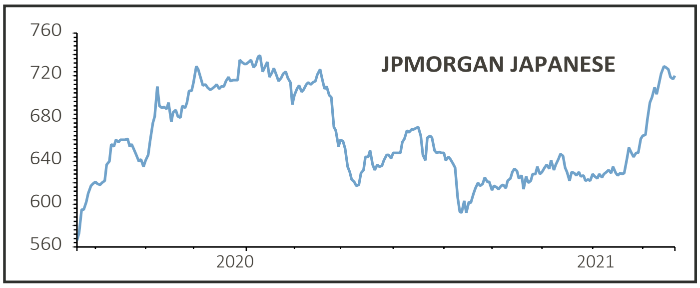
Gain to date: 32%
Original entry point:
Buy at 547.92p, 2 July 2020

AFTER A PATCHY start to 2021, this Japanese-focused investment trust is now comfortably in the money as Tokyo shares received a boost from prime minister Yoshihide Suga announcing plans to step down.

Suga's reputation had been buffeted thanks to his handling of the pandemic and his decision not to stand in a November general election should increase the chances of his Liberal Democratic party remaining in power, preserving political stability, and of a renewed bout of financial stimulus.

Japanese stocks also benefited from a strong corporate earnings season. In recent commentary from the trust, it noted the longer-term theme of Japanese businesses becoming more shareholder friendly.

'The corporate governance story continues to develop, and this increasingly looks structural in nature. It is important to note that over 50% of Japanese companies have net cash positions. This is a significantly higher percentage than companies in Europe and the US,' it added.



SHARES SAYS: ↗
Even after their recent rally the shares still trade at an 8.1% discount to net asset value, providing an attractive way for investors to play Japan. Keep buying the shares. [TS]

Aberdeen Standard Investments

EUROPEAN LOGISTICS: SPACE TO GROW?

Evert Castelein, Fund Manager, Aberdeen Standard European Logistics Income PLC

- The logistics sector has been a bright spot over the past 12 months as ecommerce demand has risen.
- Online spending continues to increase, with Europe materially behind the UK in online sales.
- Logistics demand has also been driven by reshoring and inventory building.

Amid a generally gloomy time for commercial real estate, logistics has been a notable bright spot. As the pandemic has accelerated the adoption of ecommerce, companies have needed more logistics facilities. This demand has ensured rental growth has been buoyant and capital values have continued to rise.

However, as we emerge from the pandemic, can this strength continue? There are questions over whether ecommerce will continue its rapid pace of expansion now people can return to the high street. In particular, will the demand for last mile delivery, a particular focus for the Aberdeen Standard European Logistics Income trust (ASLI), continue?

We see online spending continuing to increase, albeit at a slower pace. France, for example, experienced a 28% growth in online retail in 2020, but this blistering pace is expected to moderate to 8% annually over the next four years. It is a similar picture in the Netherlands and many of the European markets in which we operate.

We see the breadth of ecommerce expanding. Whereas fashion has led the way, people are now increasingly comfortable buying groceries online. This expansion requires new types of logistics space – cold storage, for example. As it is, ecommerce requires around three times the amount of space as a traditional shop.

However, it is not only ecommerce that is driving the logistics market across Europe. Companies are also looking to build inventory levels and move supply chains closer to home. The pandemic exposed the vulnerability of lengthy cross-continent supply chains and many companies are seeking to make their businesses more resilient by keeping higher inventories closer to home, or reshoring manufacturing back to Europe. These inventories need to be stored, which is also shoring up demand for logistics space across Europe.

There is also a supply problem. There is a lack of modern, fit-for-purpose warehousing space. Tenants need buildings with front-loading doors, enough free height to store products in racks and make efficient use of space. The floors need to be strong enough. Equally, we find ESG credentials are very important to many tenants, who are increasingly trying to reduce their carbon footprint.

This combination of factors is likely to keep demand buoyant in European logistics, sustaining high, inflation-adjusted rental income and steady capital appreciation. Vacancy rates are at historic lows. Equally, we have seen a lot of capital flowing into the market as investors look to gain a foothold in logistics, to diversify their portfolios and as an alternative source of inflation-adjusted income.

However, while a rising tide is likely to raise all boats, we believe it is important to maintain a high quality, liquid portfolio of assets. These should be resilient even at moments when the market isn't as buoyant as it is today.

Our first priority is to invest in markets that are in the early stages of their adoption of online shopping. In the UK, for example, ecommerce is now well-established and the logistics market more mature. We would rather focus on countries where adoption is at an earlier stage, which is reflected in lower prices for logistics assets. At the moment we have buildings in the Netherlands, France, Germany, Spain and Poland.

We focus on medium sized big boxes and last mile delivery hubs, which feed into the urban logistics supply chain. This is the most liquid part of the market because all retailers looking to build an online presence need to get this right. That means it is relatively easy to find an alternative tenant if one

AberdeenStandard Investments

leaves. We don't want large, complex warehouses where there's only a few companies that can take the space.

As with all property, location is important. We are focusing on buildings located along Europe's main transport networks on the edge of cities. For example, one of our recent acquisitions was a site in Lodz in Poland. It has 27,888 sqm of warehouse space and 3,612 sqm of office space, leased to six tenants and is at the heart of Poland's thriving industrial and manufacturing sector. It has direct rail links to China, while the A1 and A2 motorways provide north-south, east-west access across Europe.

The buildings also need to be right. The majority of our buildings are brand new, which means they have been built using the latest techniques for energy efficiency and smart design. The majority have solar panels on top, for example, which is particularly important for energy-intensive cold storage. Environmental, Social and Governance (ESG) factors are becoming increasingly important for investors and tenants. These tenants are willing to pay more for buildings in the right locations with strong ESG qualities, thus driving up income and valuations.

The trust is currently fully invested, but we have identified a strong pipeline of new opportunities across Europe. At Aberdeen Standard Investments, we have a strong local network and buildings often come to us 'off market', which can help with pricing. We have plans to raise new capital for the trust to invest in these new warehouses in France Spain and Poland. We believe the European logistics story is only just getting started.

For more information on how to participate in the issue of new ASLI shares, please visit youinvest.co.uk/markets/ipo/aberdeen-standard-european

Important Information
Risk factors you should consider prior to investing:

- The value of investments and the income from them can go down as well as up and you may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment companies are specialised investments and may not be appropriate for all investors.
- Investment companies can borrow money in order to enhance investment returns. This is known as 'gearing' or 'leverage'. However, the use of gearing can result in share prices being more volatile and subject to sudden or large falls in value. Where permitted an investment company may invest in other investment companies that utilise gearing which will exaggerate market movements, both up and down.
- There is no guarantee that the market price of the Company's shares will fully reflect its underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Investing globally can bring additional returns and diversify risk. However, currency exchange rate fluctuations may have a positive or negative impact on the value of your investment.
- The Ordinary Shares may trade at a discount to the Net Asset Value per Ordinary Share and Shareholders may be unable to realise their investments through the secondary market at the Net Asset Value per Ordinary Share.
- There is no assurance that the Company will be able to secure suitable logistics assets. This may affect the Company's ability to meet the Target Returns and may have an adverse effect on the Company's performance, financial condition and business prospects.
- The Company may hold a limited number of investments. If one of these investments declines in value this can have a greater impact on the fund's value than if it held a larger number of investments.
- Property values are a matter of the valuers' opinions and can go up and down. There is no guarantee that property values, or rental income from them, will increase so you may not get back the full amount invested.
- Property investments can take significantly longer to buy and sell than other investments, such as bonds and company shares. If properties have to be sold quickly this could result in lower prices being obtained for them.
- The Company invests in a specialist sector and it will not perform in line with funds that have a broader investment policy.
- Derivatives may be used, subject to restrictions set out for the Company, for efficient portfolio management in order to manage risk. The market in derivatives can be volatile and there is a higher than average risk of loss.

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THE NEW LOOK FTSE 100

How the index might evolve in 2022 and beyond

By: Tom Sieber, Ian Conway, James Crux and Martin Gamble

The FTSE 100 is poised for some significant changes in the coming 12 months such as the removal of **BHP (BHP)** from the index and **GlaxoSmithKline (GSK)** splitting into two businesses.

The importance of sectors like resources, pharmaceuticals and insurance is likely to be reduced with consumer goods and banks potentially enjoying an increased weighting.

Over time structural changes in the economy and different industries are likely to lead to even more dramatic shifts in the index with these short, medium and long-term changes altering the factors which drive the market and how UK stocks are perceived on a global basis.

In this article we look at how the UK's flagship index has metamorphosed over time, how it is set to change in the next year and what might happen further down the line.

WHY DOES IT MATTER?

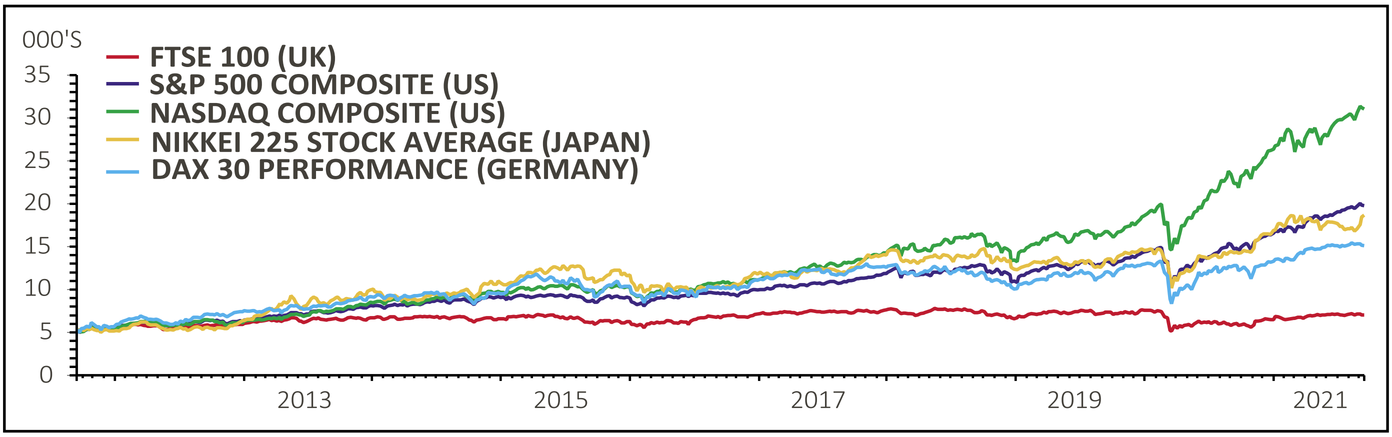
The reason changes to the complexion of the FTSE 100 should matter to investors is two-fold. First, the make-up of the index determines which sectors drive it and therefore the performance of the widely held tracker funds and ETFs (exchange-traded funds) which mirror its performance.

Second, it has an impact on how the world views UK stocks. As the chart shows, the FTSE 100 has dramatically underperformed most of its global peers over the past decade and until recently international investors have shunned the UK market.

The Brexit vote in June 2016 didn't help but UK stocks also have a reputation of being centred around the so-called 'old economy' and sectors like oil, mining and banks.

This is unfair, even looking at the current weighting it's clear that the influence of these industries has diminished significantly over the past decade and this trend is likely to continue in the future.

After all, the FTSE 250, which unlike the FTSE 100 recently attained new record highs, is a more diverse collection of businesses and this is the pool from which the FTSE 100 firms of the future will be drawn.



Top 10 FTSE 100 stocks by weighting

AstraZeneca	6.6%
Royal Dutch Shell (A+B share classes)	6.0%
Unilever	5.4%
Diageo	4.2%
HSBC	4.1%
GlaxoSmithKline	3.6%
BP	3.2%
British American Tobacco	3.2%
Rio Tinto	2.8%
BHP	2.1%

Source: Refinitiv, 20 September 2021.

Oil producer **Royal Dutch Shell (RDSB)** has two classes of share – A and B – but our table shows their combined weighting. While BHP and its mining peer **Rio Tinto (RIO)** are among the largest companies by market value, their weight in the index is reduced somewhat by their dual-listed company structure, with only the UK shares counting towards it.

FTSE 100 now - Top sector weightings

Financials	18.2%
Consumer goods	17.9%
Industrials	12.2%
Consumer services	11.7%
Healthcare	11.1%
Basic materials	10.5%
Oil & gas	9.2%

Source: Refinitiv, 20 September 2021.

What the FTSE 100 could look like in 12 months

Consumer goods	20.0%
Financials	18.2%
Industrials	12.2%
Consumer services	12.0%
Healthcare	9.6%
Oil & gas	9.2%
Basic materials	8.4%

Source: Shares, 20 September 2021.

The table showing what the FTSE 100 could look like in 12 months' time is an indicative example based on currently planned corporate actions and potential new entrants. It does not account for movements in share prices.

THE EXPERT'S VIEW

By Simon Gergel, portfolio manager at ***Merchants Trust (MRCH)***

'The composition of the UK stock market index has always been changing and to some extent mirrors changes in the broader economy.

'In the 19th century railroad companies were a large part of the market. When I started my career in the 1980s there were still a few large textile companies and many retailers.

'We are seeing, at this time, quite a rapid shift into asset light, technology and services businesses from typically asset heavy manufacturing and distribution businesses.

'This is partly due to the polarisation of the UK and other stock markets, which is rewarding higher growth businesses with higher valuations, but also due to numerous takeovers of UK listed companies such as food retailers and aerospace and defence companies (although if these are simply becoming subsidiaries of overseas-listed companies they remain part of another stock market index).

'At the same time, we are seeing IPOs of technology-oriented companies like **THG (THG)**, which helps brands sell online, and fintechs like **Wise (WISE)**.'

It is worth noting that THG and Wise are big enough to be FTSE 100 stocks, but they don't qualify for the indices due to have the wrong type of stock market listing (standard versus premium).

FTSE 100 CHANGE OVER THE YEARS

Like any index, the FTSE 100 has evolved over its lifetime as companies have come and gone. Some members have been acquired by other UK firms and rolled up into a conglomerate, which has then become a constitute of the FTSE 100 itself, but a great many have been acquired by foreign buyers.

A good example of the latter would be Allied-Lyons, an original FTSE member at the launch of the index in 1984, itself the result of a merger between Allied Breweries and J Lyons & Co.

Following a subsequent merger with a Spanish sherry producer in the 1990s, the firm became Allied Domecq, until in 2005 it was bought by a consortium comprising French drinks maker Pernod-Ricard and Fortune Brands of the US.

Yet despite the disappearance of Allied-Lyons and other original FTSE 100 members such as Bass, Northern Foods, Rowntree Mackintosh and United Biscuits, consumer goods still make up 17.9% of the index thanks in part to top-10 weightings for **British American Tobacco (BATS)**, **Diageo (DGE)** and **Unilever (ULVR)**.

McVitie's owner United Biscuits used to be in the FTSE 100

The biggest change in the index since inception has been the rise of the raw materials sector. From less than 5% originally, the sector has exploded to a 10% weighting.

When the FTSE was launched, the only mining stock in the materials sector was Consolidated Gold Fields, with the rest of the sector made up of building materials, chemicals, glass and pulp and paper.

Today, following the explosion in demand for basic materials from China during the first decade of this century, there are some very big names in the FTSE from this sector, namely **Anglo American (AAL)**, BHP, **Glencore (GLEN)** and **Rio Tinto (RIO)**.

With a new wave of infrastructure spending sweeping the globe, and the US, the UK, Europe and Asia competing for resources, commodity prices are rocketing which simply serves to reinforce the miners' large position in the index, albeit that will be weakened when BHP leaves the FTSE 100 next year, subject to shareholder vote.

In contrast, the worldwide shift towards alternative energy production in the last decade has seen oil prices fall, and as a result the size of the oil sector has shrunk as part of the FTSE from over 15% at the start of the century to just over 9% today.

FTSE 100 CHANGES COMING SOON

BHP set to leave the FTSE 100… but its shares will still trade on the UK market

Not too long ago mining giant BHP was the largest company in the FTSE 100. Now the company is due to exit the index as it drops its dual-listed company structure, likely in the first half of 2022.

BHP's dual-listed structure was formed in 2001 when Australia's BHP and the Anglo-South African Billiton agreed to operate as a combined entity without a formal merger, seemingly due to tax advantages.

Next year, assuming BHP shareholders approve the miner's plans to change its listing structure, the company will still list its shares on the London Stock Exchange – but importantly, they will no longer qualify for the FTSE indices and therefore it will lose its place in the FTSE 100. The primary listing for the business will be in Austraila.

BHP's main motivation seems to be making it easier to pursue deals with a share-based element and to restructure other parts of the business as it prepares to exit its oil and gas assets.

Breaking up GlaxoSmithKline

GlaxoSmithKline plans to demerge at least 80% of its consumer healthcare division around the middle of 2022 as it seeks to appease shareholder criticism and unlock the potential to deliver stronger shareholder returns. The firm owns 68% of the division, with joint venture partner Pfizer owning the rest.

The as yet unnamed consumer division is the world's largest global consumer healthcare company with each of its top 20 power brands generating over £100 million in annual revenues.

Its revenues last year were around £9.5 billion, and it achieved an operating margin of 22%, which implies operating profit of £2.1 billion. Revenues have grown around 10% a year over the last five years.

We can only speculate on the future market cap of the business and given its profitability and growth profile it could attract a market value of between £25 billion and £30 billion, (12 to 14 times operating profit) which would make it roughly the same size as **Barclays (BARC)**.

GlaxoSmithKline is the eighth largest constituent of the FTSE 100 index with a market value of £71.2 billion and a weight of 3.6%. The company's value accounts for roughly a third of the pharma sector which itself is 11% of the FTSE.

Post demerger, GlaxoSmithKline's market cap will fall by approximately 40% to £41 billion, reducing the weighting of pharma within the FTSE 100 index. Conversely the demerged consumer healthcare company will boost the weighting of the consumer sector.

Morrisons has just returned to the FTSE 100… but may soon leave for good

Shares in supermarket chain **Morrisons (MRW)** have been buoyed by a private equity bidding war which has pushed the share price up by 63% since June.

Fellow retailer **Sainsbury's (SBRY)** has long been touted as a takeover target and on 23 August the shares jumped 12% on market chatter that it was being lined up for a £7 billion offer from private equity.

If the two grocers were both taken private, it would leave market leader **Tesco (TSCO)** as the only traditional UK supermarket left on the London Stock Exchange. Asda is privately owned by the Issa Brothers who bought the company from US retail giant Walmart last year.

When we asked Fidelity fund manager Leigh Himsworth about the possible implications for the grocery market, he told *Shares* that it might be a positive for Tesco because the new owners of Morrisons and Sainsbury's if it also gets taken over would be temporarily distracted by bedding down the acquisitions.

Himsworth doesn't think the rationale for buying food retailers stands up from an operating perspective because UK grocery is already efficient. It's more likely that private equity is interested in the strong cash generation of the sector and asset backing.

Prudential is spinning off its US operations… and they will not be listed on the London Stock Exchange

As *Shares* went to press, insurer **Prudential (PRU)** was putting the finishing touches to demerging its long held US annuities business Jackson Life with qualifying Prudential shareholders receiving one new US-listed Jackson share for every 40 Prudential shares they own.

After last year spinning off **M&G (MNG)**, Prudential's core business going forward will be tied to the fortunes of Asia's economies with Hong Kong being its largest business, representing 39% of annual net premiums.

With a market cap of £38.7 billion, Prudential weighs in at 2% of the FTSE. The financial sector makes up 18.2% of the index according to Refinitiv and Prudential is the second largest company in the sector.

Analysts believe that the discount at which Prudential trades compared with peers will narrow once it becomes a pure Asian play.

Fidelity's Himsworth believes it might even make sense for the company to only be listed in Asia which would reduce the weighting of financials in the FTSE 100 even further.

WHO ELSE MIGHT LEAVE THE FTSE 100 OR SPIN OFF MAJOR ASSETS?

AXA Investment Managers' large caps expert Jamie Forbes-Wilson says the market has given some consideration to the possibility that **Reckitt Benckiser (RKT)** could do a deal with GlaxoSmithKline's soon-to-be demerged consumer healthcare division.

Plumbing and heating products distributor **Ferguson (FERG)** sold its UK subsidiary to focus on North America and had been a prime candidate to move its listing from London to the US. However, this now looks unlikely given the decision to dual list in New York. This means it will retain its premium listing on the London Stock Exchange and its inclusion in the FTSE 100 index.

Ed Legget, manager of the **Artemis UK Select Fund (B2PLJG0)**, says there's a wall of money looking to invest in real-returning infrastructure assets with low volatility. 'That creates an opportunity for companies you might consider to be conglomerates to divest and refocus. There are many companies that own assets that fit into a thematic that people like.'

Activist Elliott is calling for a break-up of utility **SSE (SSE)**, which Legget says 'could split off its gas infrastructure network business from its renewable energy assets'.

And if it weren't for the drag of its pension commitments, then **BT (BT.A)** could 'easily spin off its Openreach network, which is valued much higher by infrastructure funds than the market values telecoms generally,' he says.

Glencore (GLEN) has positions in copper, nickel and cobalt, which are all essential for electric vehicles and these mining operations could be worth more if they weren't part of a broader group that includes a commodities trading arm. 'Pure copper companies are valued very highly, so splitting this part of the business off from its thermal coal business could also be advantageous,' says Legget.

He also suggests **Flutter Entertainment (FLTR)** could list part of its US business, FanDuel, since peers in the US trade on much higher multiples. And perhaps in the medium term, **BP (BP.)** and **Royal Dutch Shell (RDSB)** might spin off their renewable energy/charging infrastructure businesses. 'Oil assets could then be placed in run-off and run for cash,' he explains.

FTSE 100 PROMOTION CANDIDATES

Top FTSE 250 stocks by weighting (%)

Howden Joinery	1.26
Dechra Pharmaceuticals	1.26
Electrocomponents	1.19
Wizz Air	1.10
IMI	1.09
F&C Investment Trust	1.09
Spectris	1.03
Weir	1.00
Bellway	0.99
Future	0.95

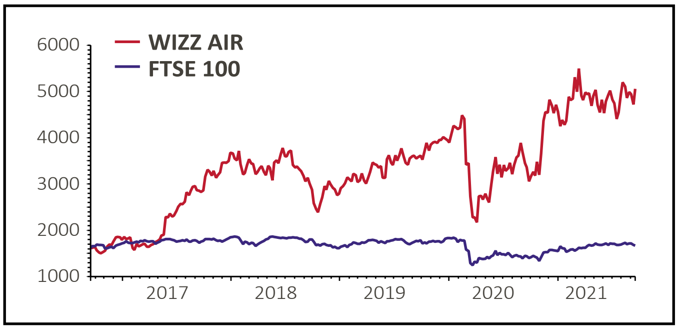
Source: Refinitiv, 17 September 2021

WIZZ AIR (WIZZ) £49.09

Market cap: £5.1 billion

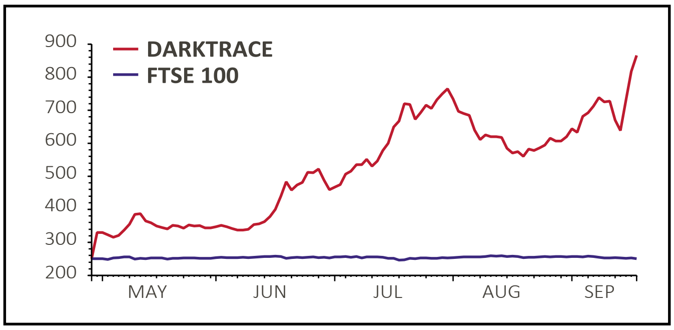
Budget airline **Wizz Air's (WIZZ)** ambitions were laid bare recently by a slightly cheeky all-share offer for troubled rival **EasyJet (EZJ)**, if rumours are correct that it was the party behind the bid interest.

This approach may have been unceremoniously rebuffed, but the company's growth trajectory is clear and underpinned by its focus on the Central and Eastern European travel market and helped by an ability to generate significant levels of stable and high margin ancillary revenue. These are the extras like luggage and seat selection fees. A plan to increase the fleet by 65% from the March 2020 level by 2024 should also power the kind of expansion necessary for a move into the FTSE 100.



DARKTRACE (DARK) 794P

Market cap: £5.6 billion



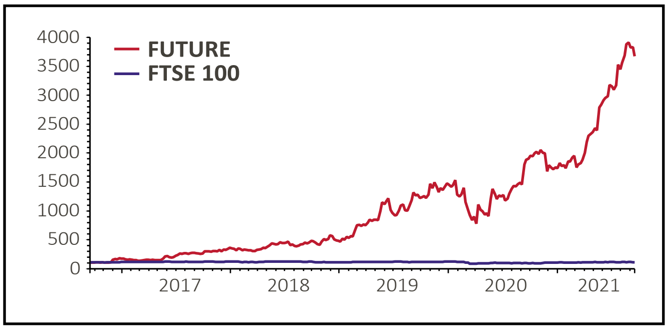
A stunning share price performance since its April 2021 debut has seen the market valuation of cyber security firm **Darktrace (DARK)** more than treble.

While this suggests the stock market listing was priced to get away, with expected valuations slashed at the last minute amid concern over the company's links to alleged fraudster Mike Lynch, the progress has been underpinned by consistent upward revisions to revenue guidance.

A push to the FTSE 100 looks highly feasible, backed by the group's position in a fast-growing industry and its innovative approach based on artificial intelligence and machine learning.

FUTURE (FUTR) £36.88

Market cap: £4.5 billion



Since CEO Zillah Byng-Thorne took the helm in April 2014, **Future's (FUTR)** market valuation has gone from approximately £300 million to more than £4 billion.

The strategy has been based on acquiring undervalued publishing titles and integrating them on to a centralised platform. This enables Future to monetise the underlying specialist content and brands through a mixture of e-commerce, getting content users to click through to partnered retailers, events and online advertising.

The acquisition of comparison site GoCo in 2020 threw the market a bit of a curveball but any resulting weakness in the shares proved short-lived as Future's model continued to deliver earnings upgrades.

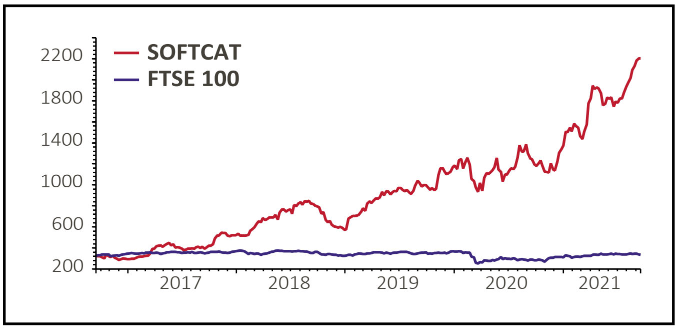
SOFTCAT (SCT) £22.20

Market cap: £4.4 billion

The appeal of IT expert **Softcat (SCT)** to customers is clear – it sells third party software to small and medium-sized businesses and public sector organisations along with hardware like PCs and smartphones. It then offers tech support and advice on top.

This removes the hassle for companies in managing several IT service and product relationships, and it's an offering which is likely to be in greater demand given the digitalisation trend accelerated by Covid-19.

The business has a hard act to follow in the short term given the surge in new work won at the outset of the pandemic. But longer-term we think it is a plausible FTSE 100 candidate.



SPECTRIS (SXS) £39.56

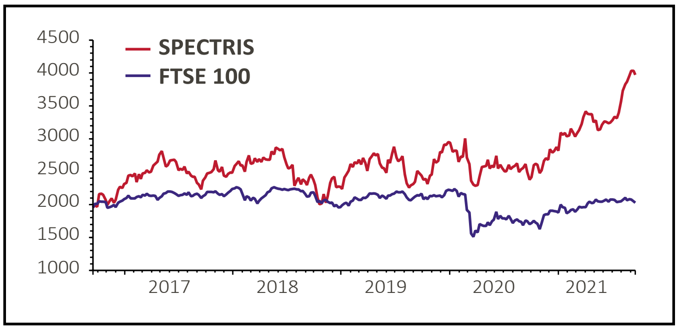
Market cap: £4.4 billion

Industrial controls, testing and analysis kit maker **Spectris (SXS)** has made significant strategic progress having unveiled a revamp of the business in 2019.

It has sold five non-core businesses, most recently with the August 2021 divestment of process measurement specialist NDC Technologies for £130 million.

Investment bank Berenberg says Spectris is now a higher-margin, less capital intensive and 'more attractively positioned business'.

The focus is more skewed towards the healthcare sector with a strong balance sheet enabling bolt-on acquisitions. It has £1 billion of firepower without the need for additional financing, and scope for organic growth in margins and revenue.



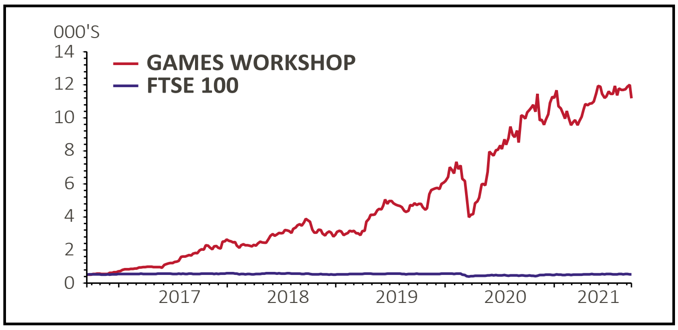
GAMES WORKSHOP (GAW) £111.50

Market cap: £3.6 billion

Fantasy miniatures firm **Games Workshop (GAW)** looks a longer shot for FTSE 100 inclusion but there is a case to be made for the company joining the ranks of the blue chips.

If it is to get there, the driver is likely to be royalty revenue as it commercialises the intellectual property associated with its Warhammer brand through video games as well as TV and films.

Such a revenue stream would be highly prized by the market given the stability and excellent returns associated with royalties. The company also benefits from its in-house manufacturing capability as well as a large and loyal fanbase for its products and invented worlds.



BAILLIE GIFFORD

ADVERTORIAL

JAPAN – RESILIENCE IN A TIME OF CRISIS

Covid-19 may have been less catastrophic than the seismic events regularly afflicting the island nation, but the stay-at-home 'demand shock' of the pandemic may ultimately have a bigger impact on consumption patterns than recurrent earthquakes and tsunamis.

The value of your investment and any income from it can go down as well as up and as a result your capital may be at risk.

To the managers of Baillie Gifford's Japanese Fund, 2020 demonstrated the country's impressive resilience in times of crisis, while boosting some of its most exciting companies. Performance throughout the year further justified managers' belief in Japan's underappreciated potential and range of opportunity.

Long-familiar names as well as relative upstarts within this concentrated, low-turnover portfolio have emerged in good shape, defying the pandemic just as they have the country's endemic problems with demographics, its deflationary mindset and its weakness for sub-optimal corporate governance.

The fund's most obvious strength is its 30 per cent weighting in internet-based companies. Key beneficiaries of shifting consumption habits, they have long been seen by managers as a strong source of future growth. Ecommerce penetration in Japan is still low by global standards and the rate of catch-up looks set to accelerate post-Covid. On the other side of that coin, managers have trimmed some big name offline 'old Japan' companies, including some that the market still generally favours.

But it's not just 'new Japan' companies, such as ecommerce pioneers Rakuten and GMO Internet, or gaming and social media companies such as Mixi and Gree that excite Japanese Fund stock-pickers. They are also looking at opportunities that emerging technologies offer Japanese world-beaters such as tire maker Bridgestone, and robotics specialists Fanuc and SMC.

Against a background of heavy blows to demand and profitability across corporate Japan, performance has vindicated the Japanese Fund managers' belief that diverse stock-picking themes and growth styles (secular growth; growth stalwarts; special situations and cyclical growth) are the best insurance against contingencies and shifting consumer behaviour.

ANNUAL DISCRETE PERFORMANCE

	30/06/16-30/06/17	30/06/17-30/06/18	30/06/18-30/06/19	30/06/19-30/06/20	30/06/20-30/06/21
Baillie Gifford Japanese Fund - Class B-Acc (%)	34.6	16.1	0.4	4.7	18.0
TOPIX (%)	24.2	9.5	-2.1	6.1	10.7
TOPIX +1.5 (Target) (%)	26.1	11.1	-0.7	7.7	12.4
IA Japan Sector Average (%)	24.9	10.7	-3.4	7.8	13.2

Past performance is not a guide to future returns

All data as at 31 July 2021 and source Baillie Gifford & Co Limited unless otherwise stated. Past performance is not a guide to future returns.

Performance source: StatPro, FE, Tokyo Stock Exchange, total return in sterling.

The manager believes that the TOPIX +1.5% is an appropriate target given the investment policy of the Fund and the approach taken by the manager when investing. In addition, the manager believes an appropriate performance comparison for this Fund is the Investment Association Japan Sector.

Changes in the rate of exchange will cause the value of any investment, and income from it, to fall as well as rise and you may not get back the amount invested. The Fund's share price can be volatile due to exposure to a single market, a single currency, movements in the prices of the underlying holdings and the basis on which the Fund is priced.

This article does not constitute, and is not subject to the protections afforded to, independent research. Baillie Gifford and its staff may have dealt in the investments concerned. The views expressed are not statements of fact and should not be considered as advice or a recommendation to buy, sell or hold a particular investment.

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Catch these star turn investment trusts on the way up

Shares shines the spotlight on the small-to-mid-sized funds that could become the major players of tomorrow

In the same way investors can make a mint by backing a mythical '10-bagger' early doors, fund fanatics can make big gains by catching an investment trust on the way up, before it begins its rise through the market capitalisation ranks and potentially even joins the likes of **Scottish Mortgage (SMT)**, **3i (III)** or **Pershing Square Holdings (PSH)** in the FTSE 100.

We can never know with certitude which investment styles and trends will be in fashion years into the future, but we can mine data to decipher which modestly-sized investment trusts are delivering stellar performance today, and have a chance of motoring through the market cap ranks as a result.

To help narrow the search, *Shares* has crunched data using FE Fundinfo to find those investment trusts, valued at more than £200 million but less than £350 million, that have delivered the best total returns over the past three years.

Established trusts with track records and scale, these names are also nimble enough in terms of size to be able to invest in

growth companies that can move the performance dial and (hopefully) propel their own market caps higher as demand for their shares grows.

ORYX GROWTH RUNNING HARD

According to FE Fundinfo, the best three-year performer by some stretch in this market cap band is the under-the-radar **Oryx International Growth Fund (OIG)**.

Over this period, it has generated a terrific total return north of 130%, building on the outstanding long-run record under Christopher Mills and his team at Harwood Capital Management.

Oryx International Growth's net asset value (NAV) per share increased by 86.6% to £16.42 in a testing year to March 2021, as its focus on only investing in companies with good prospects, active management and conservative balance sheets shepherded the trust through the Covid crisis.

NAV growth was driven by some standout price performances from quoted small caps including **Renalytix (RENX:AIM)**, **EKF Diagnostics (EKF:AIM)**, **Sureserve (SUR:AIM) and MJ Gleeson (GLE)**, as well as a satisfactory result from the unquoted portfolio.

Relatively new additions to the portfolio include **GYG (GYG:AIM)**, a microcap provider of maintenance services to superyachts, medical technology concern **Tissue Regenix (TRX:AIM)** and **Wandisco (WAND:AIM)**, a business that moves data to and from the cloud and counts Microsoft and Amazon as two of its largest customers.

EASTERN PROMISE

Hot on Oryx's heels with a three-year total return of 87.5% is **JPMorgan Russian Securities (JRS)**, which trades at a 13% NAV discount which might pique the interest of adventurous investors.

Managed by the experienced Oleg Biryulyov alongside Habib Saikaly, the fund's bottom-up approach is focused on making long-term investments in best-in-class companies with robust corporate governance and strong balance sheets. These include Gazprom, a beneficiary of increased demand for gas in

In our opinion, Asia is going to be one of the fastest-growing regions over the coming decades. But for long-term capital growth in Asia-Pacific (excluding Japan) and the Indian sub-continental markets, choose the Trust that is scouring the horizon in search of those mould breaking, fearlessly managed, forward thinking businesses, that can deliver true potential for your investments. Over the last five years the **Pacific Horizon Investment Trust** has delivered a total return of 355.4% compared to 93.1% for the index*.

Standardised past performance to 30 June*	2017	2018	2019	2020	2021
PACIFIC HORIZON INVESTMENT TRUST	41.7%	36.1%	-8.9%	46.0%	77.5%
MSCI AC ASIA EX JAPAN INDEX	30.8%	8.4%	3.6%	5.0%	25.3%

Past performance is not a guide to future returns. Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

Find out more by visiting our website bailliegifford.com
A Key Information Document is available. Call 0800 917 2112.

BAILLIE GIFFORD | *Actual Investors*

*Source: Morningstar, MSCI, total return in sterling as at 30.06.21. Your call may be recorded for training or monitoring purposes. Issued and approved by Baillie Gifford & Co Limited, whose registered address is at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Trust. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised and regulated by the Financial Conduct Authority.

£200m-to-£350m star turns			
Company	**Ticker**	**3 yr total return**	**5 yr total return**
Oryx International Growth Fund	OIG	132.4%	194.3%
JPMorgan Russian Securities	JRS	87.5%	148.4%
Weiss Korea Opportunity Fund	WKOF:AIM	68.4%	98.1%
Fidelity Japan Trust	FJV	68.3%	167.0%
Schroder UK Mid Cap Fund	SCP	55.0%	99.7%
Montanaro UK Smaller Companies	MTU	66.0%	129.4%
Augmentum Fintech	AUGM	61.6%	n/a

Source: FE Fundinfo, 16 September 2021

Europe and also Sberbank, which dominates the Russian banking sector and is expanding into non-financial technology.

In June, Numis Securities pointed out Russia as the cheapest major global equity market and wrote that: 'As the world's largest energy exporter, Russia is highly geared to the reopening and reflation trade. The economy is expected to return to growth this year, benefiting from rising commodity prices.'

The broker regards JPMorgan Russian Securities as 'an attractive way to tap into the theme' with the energy, materials and financials sectors dominating the portfolio.

Also flying high in the performance tables is another country specialist, **Weiss Korea Opportunity Fund (WKOF:AIM)**, which has returned an impressive 68.4% over three years and a handsome 98.1% over five years.

Not only is Weiss Korea Opportunity the only UK-listed fund offering investors dedicated access to South Korean stocks, the £204 million cap also pursues a differentiated investment approach that seeks to profit from the valuation gap between non-voting Korean preference shares and the common shares issued by the same companies, with Hyundai Motor, LG Chem and LG Electronics among the top 10 positions.

Also meriting mention is a fellow Far East investor, the £331 million cap **Fidelity Japan Trust (FJV)**, which has returned 167% and 68.3% on five and three year views respectively under the stewardship of Nicholas Price, who took on the management of the portfolio in September 2015.

On 12 August, Stifel explained that since Price was installed as manager, 'the trust's NAV total return has been more than double the returns of its TOPIX benchmark, making it the best performing Japanese All Cap trust under our coverage over one year, five years and since the manager's appointment'.

ALSO ON THE MARCH

Other trusts with sub-£350 million tags able to toast robust performance figures include **Schroder UK Mid Cap Fund (SCP)**. This £266 million cap invests in the high-flying FTSE 250.

Up 67.5% on a total return basis over one year, the trust has generated a 55% total return over three years as it profits from the best opportunities in what managers Jean Roche and Andy Brough refer to as the 'Heineken Index', given the FTSE 250's potential to 'refresh' portfolios in a way other parts of the market cannot. Top 10 holdings as at the end of July included fantasy miniatures maker **Games Workshop (GAW)**, homewares leader **Dunelm (DNLM)** and ambitious media group **Future (FUTR)**.

AND KEEP AN EYE ON

Other funds within this market cap bracket that have the potential to become much bigger include **Montanaro UK Smaller Companies (MTU)**, up 66% and 130% over a three and five year timeframe. Seasoned investor Charles Montanaro, who has agreed to continue managing the trust for a least five more years. The trust boasts one of the lowest ongoing charges figures in the Association of Investment Companies' UK Smaller Companies sector at 0.82%.

Investors should also follow the fortunes of **Augmentum Fintech (AUGM)**, a £297 million cap which has delivered a three-year return of 62%. The UK's only publicly listed investment company focused on the fintech sector, it offers exposure to a red hot theme and could become a far bigger trust over time, although this thematic excitement is reflected in the trust's near-26% premium to NAV.

James Crux,
Funds & Investment Trusts Editor

Asset Value Investors (AVI) has managed the c.£1.1 bn AVI Global Trust since 1985. The strategy over that period has been to buy quality companies held through unconventional structures and trading at a discount; the strategy is global in scope and we believe that attractive risk-adjusted returns can be earned through detailed research with a long-term mind-set.

The companies we invest in include family-controlled holding companies, property companies, closed-end funds and, most recently, cash-rich Japanese companies. The approach is benchmark-agnostic, with no preference for a particular geography or sector.

AVI has a well-defined, robust investment philosophy in place to guide investment decisions. An emphasis is placed on three key factors: (1) companies with attractive assets, where there is potential for growth in value over time; (2) a sum-of-the-parts discount to a fair net asset value; and (3) an identifiable catalyst for value realisation. A concentrated portfolio of c. 37* investments allows for detailed, in-depth research which forms the cornerstone of our active approach.

Once an investment has been made, we seek to establish a good relationship with the managers, directors and, often, families behind the company. Our aim is to be a constructive, stable partner and to bring our expertise – garnered over three decades of investing in asset-backed companies–for the benefit of all.

AGT's long-term track record bears witness to the success of this approach, with a NAV total return well in excess of its benchmark. We believe that this strategy remains as appealing as ever, and continue to find plenty of exciting opportunities in which to deploy the trust's capital.

DISCOVER AGT AT WWW.AVIGLOBAL.CO.UK

*One investment is the Japan Special Situations basket of 13 Japanese stocks as at 31 January 2020.

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AVI
Asset Value Investors

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Will food prices fuel inflation?

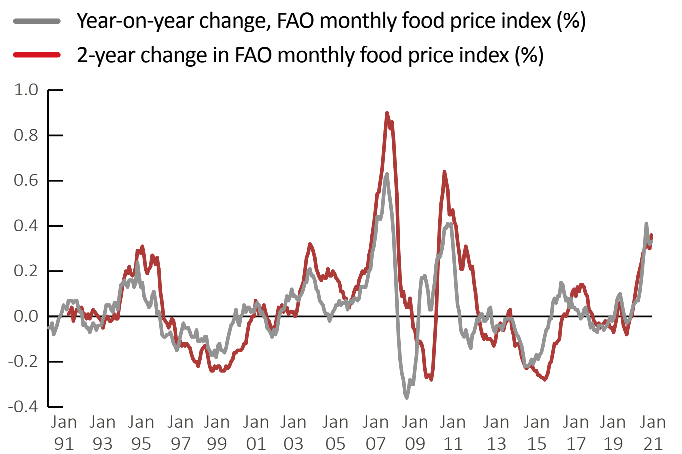
If consumers get used to paying more and seek higher wages in turn, rising prices could be here to stay

Just now investors will be interested – even concerned – to ascertain whether food prices will be the source of a sustained bout of inflation and one which may do damage to consumers' ability and desire to spend.

Central bankers will want to know too, in case inflation forces their hand and requires a tightening of monetary policy in the form of a tapering of QE (quantitative easing) and higher interest rates.

The United Nations' FAO Food Price Index therefore requires attention. The benchmark, which spans key agricultural materials such as cereals, vegetable oils, meat, dairy products and sugar, is up 33% year-on-year. That is the fastest rate since 2011.

Global food prices are surging



Source: Food and Agricultural Organisation of the United Nations

HISTORY PLAY

No doubt central bankers, to defend their view that the current spike in inflation is 'transitory,' will be keen to point out some of the factors involved in the food price surge.

These range from global shipping and port bottlenecks, to a shortage of truck drivers to bad weather in countries such as Brazil, where drought and then unseasonal frost is badly affecting supply of oranges and coffee to the global market.

But even the comparison against two years ago, before the pandemic struck in 2020, shows a 36% increase, so the current surge may not just be the result of a (low) base effect, even allowing for the role of these one-off factors.

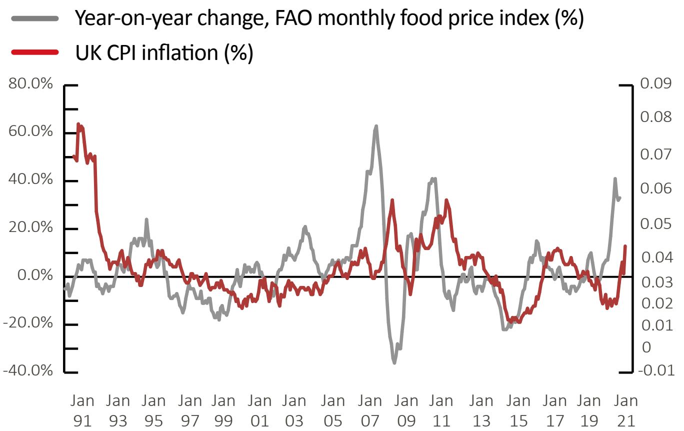
In many cases, the best cure for high prices of a product is high prices, as they either choke off demand or encourage additional supply. The latter may happen in time, if the weather helps, but it is not easy for people to stop eating, as they need their daily calorific intake. (In this context investors may need to keep an eye on the political situation too. Food shortages and soaring prices helped to spark the Arab Spring protests and uprisings in 2011, the Chinese Tiananmen Square protests in 1989 and before that the Russian and French Revolutions of 1917 and 1789).

There appears to be some grounds for arguing that food prices are fuelling the current spike in inflation on both sides of the Atlantic even if the UK CPIH inflation basket has a weighting of just 8.9% toward food and soft drinks (with a further 10.4% weighting toward alcohol, tobacco and restaurants and hotels), and the US equivalent weighting is 7.6% (with a further 6.2% from eating out and 1.6% from alcohol and tobacco).

These weightings reduce food's overall influence and that helps to explain why the UK headline rate of inflation is 3.2% and America's 5.4%, along with how grocers and suppliers decide to handle cost increases, either by passing them or taking the margin hit themselves.

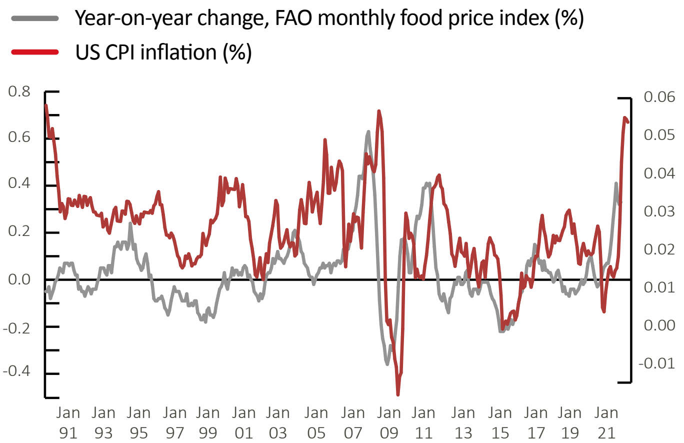
RUSS MOULD
AJ Bell Investment Director

Rising global food prices may be nudging UK inflation higher...



Source: Food and Agricultural Organisation of the United Nations, Office for National Statistics

...and they could be fuelling US inflation too



Source: Food and Agricultural Organisation of the United Nations, US Bureau of Labour Statistics

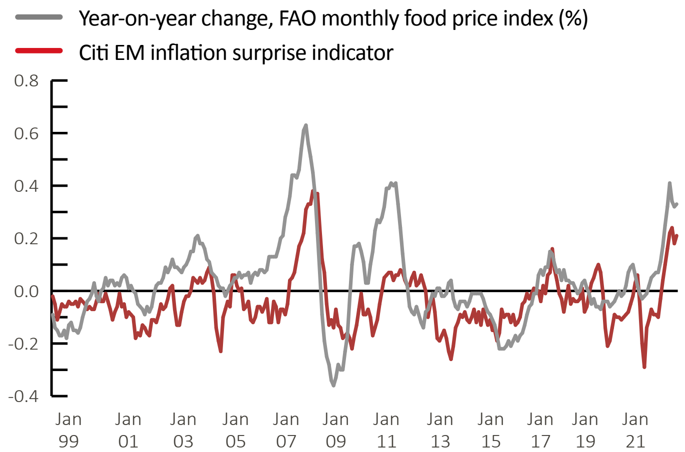
EMERGING PROBLEM

It may be of little comfort to consumers that the way in which baskets of good are constructed to measure inflation is limiting the impact of rising food prices. Leave the economists' desk behind and get out in the real world and this issue matters, especially to those who are less well off and where a greater percentage of income is spent on life's essentials.

Emerging markets are a case in point. It is possible to argue that food prices are a much bigger issue, if the apparent correlation between the cost of foodstuffs and an indicator inflation surprises is any guide. In this context it is no wonder that emerging markets such as Brazil, Russia and Mexico are leading the charge when it comes to interest rates rises in 2021.

According to *www.cbrates.com*, there have been 52 individual hikes to borrowing costs around the world this year and all but two (first moves from Iceland and South Korea) have come from emerging markets.

Rising food prices are a big issue in emerging markets



Source: Food and Agricultural Organisation of the United Nations, Refinitiv data

END GAME

It may well be that the weather comes to the rescue and the combination of rising supply, an end to shipping chaos and 2021's higher base for comparison means that food price inflation (and price rises more generally) ease in 2022, to the relief of investors and central bankers alike. But caution is needed. If consumers start to accept higher prices, and get higher wages so they can pay them, inflation can become entrenched.

There were three distinct waves of inflation in the 1970s and the last one was the worst of all. Only then did the Paul Volcker-led Federal Reserve and the UK's Conservative government set about dealing with inflation by jacking up interest rates to double-digit levels, something that neither consumers nor financial markets will want to see in a hurry.

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PAST PERFORMANCE

	Aug 16 - Aug 17	Aug 17 - Aug 18	Aug 18 - Aug 19	Aug 19 - Aug 20	Aug 20 - Aug 21
Net Asset Value	**29.0%**	**1.0%**	**-5.7%**	**50.3%**	**4.5%**
Share Price	**35.1%**	**0.3%**	**-2.8%**	**52.8%**	**9.7%**
MSCI China Index	**37.2%**	**-0.6%**	**1.1%**	**24.9%**	**-7.7%**

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 31.08.2021, bid-bid, net income reinvested.
©2021 Morningstar Inc. All rights reserved. The MSCI China Index is a comparative index of the investment trust.

Past performance is not a reliable indicator of future returns. The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. Investments in emerging markets can be more volatile than other more developed markets. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand.

The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies.

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Dianomi chases big contextual ads opportunity

Chief executive Rupert Hodson is excited about the prospects for the group amid the demise of the third party cookie

The CEO of digital advertising firm **Dianomi (DNM:AIM)**, Rupert Hodson, tells *Shares* the group is benefiting from the demise of third party cookies that has prompted many advertisers to embrace contextual advertising, and its cost per click model.

Contextual advertising is when the content of an advertisement is directly linked to the content of the web page a person is viewing.

Dianomi is a provider of so-called native digital advertising services. Native online ads match the form and function of the platform on which they appear.

Its customers, both publishers and advertisers, are concentrated in the financial services and business sectors but it has recently moved into the premium lifestyle space, bringing on board publishers like CNN and Conde Nast.

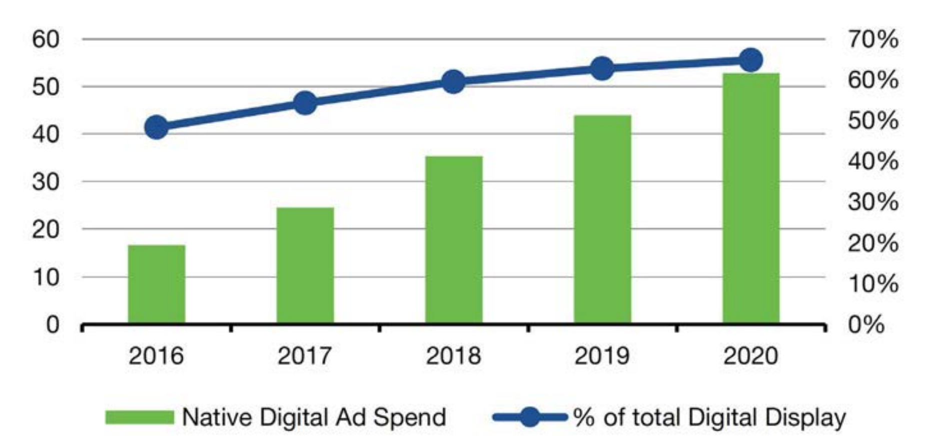
The company joined the AIM market in May 2021 through a listing which valued it at £82 million. Dianomi's clients include seven of the world's largest asset management companies, and half of the top largest banks in America.

CONTEXTUAL ADS SOLVE PLACEMENT ISSUES

A frequent problem encountered by publishers occurs when viewers scroll down to the bottom of a news website to find a random amalgamation of irrelevant adverts. Dianomi's technology enables brands to place adverts alongside financial news to generate impressions in a contextually relevant setting.

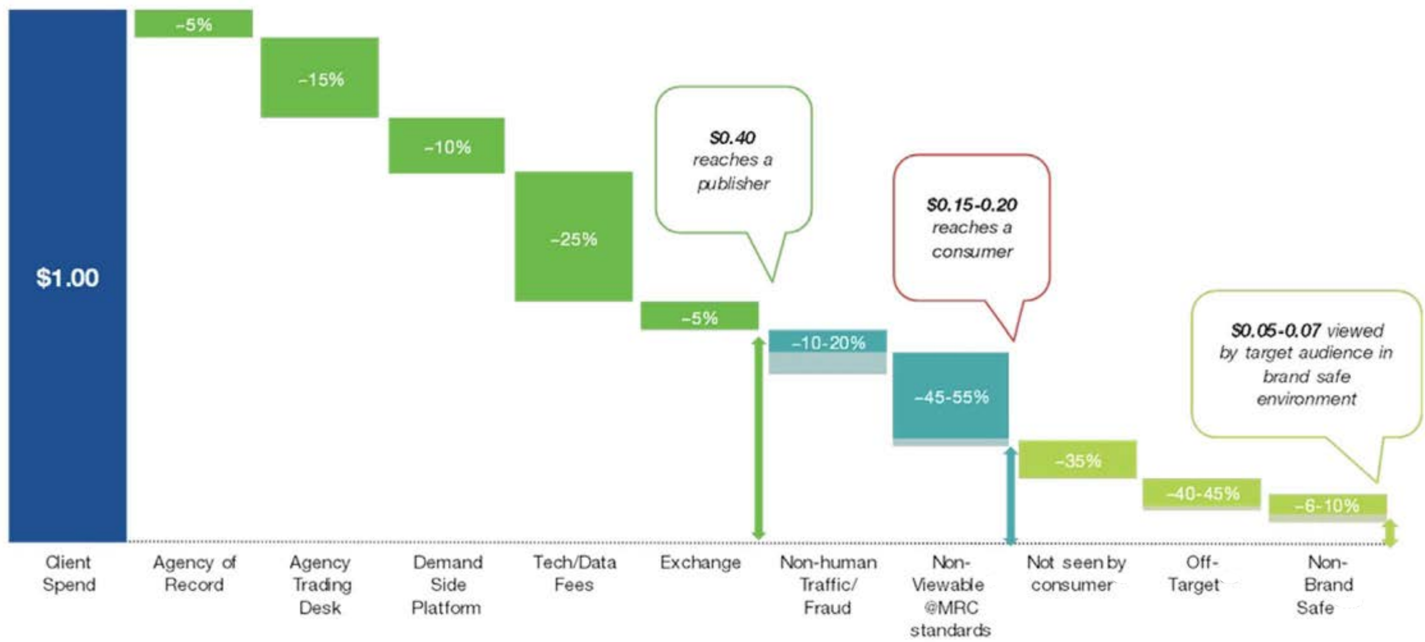
This is important because the adverts are more likely

US native digital display advertising spend ($ billion)



Source: eMarketer

In programmatic digital media trading, cases exist where only circa 15¢ of every $1 reaches a real audience



Source: Liberum, Ebiquity

to resonate and gain traction with readers, and in contrast to randomly placed adverts, do not detract from the experience of consuming the content.

Hodson says Dianomi's proprietary algorithm can determine which publishers' sites are delivering the sales conversions, 'this enables an advertiser to optimise their campaigns by specific areas where success is tangible'.

FROM COOKIE TO CONTEXTUAL

There has been a phenomenal increase in the growth of contextual advertising. The market is currently worth $4.5 billion and is expected to experience double digit growth to 2025. This growth is being driven by the increasing importance being placed on consumer privacy, and explains Google's decision to discontinue third party cookies.

This will limit the availability of tracking data used by advertisers. Companies like Dianomi are well positioned to benefit from this trend. Contextual advertising offers advertisers a reliable alternative to understand consumer interests while targeting priority audiences.

COST PER CLICK

Dianomi operates a business model where adverts are priced on a cost per click basis, or in other words the number of times visitors click on a display ad, as opposed to a cost per thousand model, with a site's publisher charging a certain amount for every 1,000 impressions of the ad, or in other words how often a specific page is loaded up by web browsers.

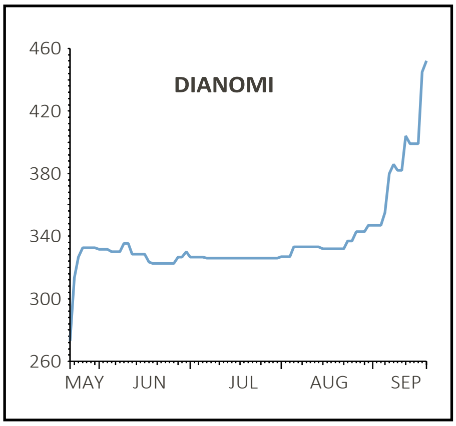
By adopting a cost per click pricing model Dianomi's interests are aligned with those of advertisers and publishers. If the advert performs well and gets lots of readers to click through, further sales are generated by advertiser and the publisher.

Dianomi collects the payment made by the advertiser, retains a share, and passes the rest on to the publisher, typically 30%/70% in favour of the publisher. This model offers advertisers a transparent return on investment for their digital marketing spend.

'MULTIPLE CONVERSATIONS WITH OTHER BIG PUBLISHERS'

Dianomi has traditionally been focused on the financial and business advertising segments. However it has started to enter the premium lifestyle segment and is having 'multiple conversations with other big publishers'. Hodson emphasises the broad nature of the category that has a plethora of sub-verticals within it, saying it can be anything from luxury watches to cars.

Dianomi has been able to establish itself in this new market without having to bring in new demand and distribution resources. 'We had financial



publishers saying you are doing a great job for us monetising our financial content but can you help with our lifestyle offering?'

This has enabled Dianomi to leverage the innate demand from existing publishers.

Dianomi recently announced a new partnership with CNN as the exclusive content recommendation partner across CNN Business, replacing the incumbent provider Outbrain. Hodson says: 'This is hugely exciting for us, it is a big size with significant distribution. When you look at the potential of lifestyle, CNN is a top 10 news and media site.'

The group has also successfully developed its relationship with the Wall Street Journal. In April Dianomi was rolled out across all of Wall Street Journal's pages, and the group is in discussions about being this being extended to its app. Previously Dianomi featured only on its market quote pages.

After a strong recent run for the shares they trade on 51 times forward earnings.

The structural growth drivers for the group look compelling and, reassuringly, the shareholder register includes Amati Global and Crux Asset Management, both seasoned investors in the AIM market.

By **Mark Gardner**
Senior Reporter

AJBell Youinvest SHARES

MON£Y & MARKET$

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HgCapital Trust plc

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Six months performance to 30 June 2021

NAV per share: +21%p.a. **Share price: +17%p.a.**

	6 months to June 2021 %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	20 years % p.a.
NAV per share	21.4	41.3	24.3	21.9	15.0	14.3
Share price	17.4	53.2	24.9	27.3	14.9	14.8
FTSE All-Share Index	11.1	21.5	2.0	6.5	6.4	5.6
NAV per share performance relative to the FTSE All-share Index	10.3	19.8	22.3	15.4	8.6	8.7
Share price performance relative to the FTSE All-share Index	6.3	31.7	22.9	20.8	8.5	9.2

Over the past 10 years, HgCapital Trust's share price has outperformed the wider market by >8% p.a.

Note: All figures are as at 30 June 2021 and refer to performance on a total return basis, assuming all historic dividends have been reinvested. Source: Hg.

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Investing your pension: eight important points to think about

Key things to consider when building up a pot of money for later life

If you've decided to invest in a pension – either via your workplace or in a personal pension like a SIPP – you might need to think about how you'd like your money invested.

In this article we run through some of the key points to consider.

I HAVE A DEFINED BENEFIT PENSION. HOW DOES THAT WORK?

If you are a member of a funded defined benefit pension, where your retirement income is guaranteed and based on the number of years you have worked for your employer, you won't have to make any investment decisions.

Instead, trustees will invest the scheme's collective assets on your behalf. The employer will be required to pay your pension regardless of how these underlying investments perform, with the Pension Protection Fund (PPF) acting as a lifeboat scheme should the employer sponsor fail.

Members of unfunded public sector defined benefit schemes, which includes people like teachers and NHS workers, have their pensions paid from general taxation. This means contributions are not invested in real assets, with the state effectively guaranteeing to pay your retirement income.

I HAVE A PRIVATE PENSION. DO I MAKE THE INVESTMENT DECISIONS?

If you're saving in a private pension, you will need to decide how much risk to take with your money. In general, the higher the risk, the more volatility you will experience in your investments.

Investing in companies tends to come with more risk, but also more opportunity for long-term growth. Things like government bonds, on the other hand, are usually safer but offer less by the way of upside.

HOW MUCH RISK SHOULD I TAKE?

You also need to consider the impact inflation might have on the value of your investments. If you invest in safer assets like government bonds your money should grow predictably but at a relatively low rate – and this could be chipped away at by rising prices.

For example, if your investments deliver 2% annual returns and inflation runs at 3%, in reality the value of your investments – or how far your money will go – will have fallen by 1%.

This is one of the main reasons most people will want to take at least some risk when investing their retirement pot during their working life. Traditionally younger savers can afford to take a bit more risk as they have decades to ride out the ups and downs of the stock market and, in theory, benefit from compound growth.

However, deciding how much or how little risk to take is a personal decision, and will depend not just on your time horizon but your preferences, financial situation and long-term goals. Whatever level of risk you plump for, it's vital you diversify your investments around different assets and different regions of the world.

WHAT IS DIVERSIFICATION?

Diversification is simply a way of investing that ensures all your eggs aren't in one basket. If you chose to invest your entire pension in a single company, for example, then your retirement would hinge on whether that company is successful or not.

Similarly, if you only invest

in US technology firms then the success or failure of this sector will go a long way to determining your lifestyle in older age.

Most people aren't comfortable with having so much risk in one company or area, particularly as it's likely to lead to extreme volatility. Instead, it's usually preferable to invest your retirement pot in a range of different assets in countries around the world.

THAT SOUNDS A BIT COMPLICATED – ARE THERE ANY SHORTCUTS?

It is possible to build your own diversified portfolio of individual shares and bonds, but this requires you to dedicate a lot of time to researching companies, combing through balance sheets and assessing their short and long-term value.

For those who prefer not to take on this level of work – which is most people – there are funds available which aim to do this for you. In return for the fund manager taking on the legwork you'll need to pay them a fee.

So-called 'multi-asset' funds are increasingly a feature of the UK market, potentially allowing savers to hold a diversified portfolio in a single investment. These funds are often targeted at different risk appetites, ranging from low to high (although they might have slightly different labels).

When picking any fund, you need to keep your costs and charges as low as you possibly can, as these costs will eat away at your returns.

WHAT DOES 'DEFAULT FUND' MEAN ON A WORKPLACE PENSION AND IS IT RIGHT FOR ME?

If you are employed, aged 21 or over and earning more than £10,000 you will be automatically enrolled into a workplace pension scheme. This scheme will be chosen by your employer on your behalf.

Some schemes may offer you a wide choice of investment funds, while others will be more limited. However, by law every auto-enrolment scheme has to offer a default fund, and this is where your pension will be invested if you don't do anything.

Fund charges for default funds are capped at 0.75%, although many will charge less than this. Each default fund will hold a slightly different mix of assets, but crucially this will be designed based on the broad membership rather than your own personal circumstances.

You may want to choose other investments from your existing scheme that better match your age, risk profile and preferences – or even transfer your auto-enrolment funds to a different provider altogether.

Both options are possible under existing rules, although you will be moving money from a charge capped environment to one where charges are not capped.

SHOULD I 'DE-RISK' MY INVESTMENTS AS I APPROACH MY CHOSEN RETIREMENT DATE?

When people talk about 'de-risking', this just means shifting your investments out of higher risk assets such as equities and moving them into safer assets like bonds and cash.

This was traditionally the approach taken before the pension flexibilities were introduced in April 2015.

Prior to April 2015, most people used their retirement pot to buy an annuity, and so moving to safe assets in the years before this happened made sense to build certainty into their plans.

If you are still planning to buy an annuity or cash out your entire pension pot, de-risking in this way could still make sense.

However, someone planning to stay invested while taking an income in retirement through drawdown might have decades left in the markets.

As such, while taking an income from your pension might lead to a review of your strategy – and possibly a shift towards income-producing investments – your asset allocation may not materially need to change at this point.

WHAT ELSE SHOULD I THINK ABOUT WHEN INVESTING AND TAKING A RETIREMENT INCOME?

Wherever you choose to invest your retirement pot, when building your savings and taking an income it is crucial you keep your costs and charges as low as possible, as even small differences can have a big impact.

You should also consider the impact significant drops in the value of your investments over the short-term might have on the sustainability of your withdrawal plan.

As a very rough rule of thumb, a healthy 65-year-old should be able to withdraw somewhere in the region of 3% to 4% of their starting pot value as an inflation-adjusted income and be confident the fund will last the distance. However, the rate that is sustainable for each person will depend on the performance of their investments and personal circumstances.

You should also consider the investments you choose to generate that retirement income. Investments that pay healthy dividends are popular among people generating an income through drawdown, allowing you to preserve your underlying capital.

A natural yield strategy – where you simply live off the income your investments generate – is one way to make sure your pot stretches longer, or you have more to leave to loved ones after you die. However, this can leave you open to big fluctuations in your income if dividends dry up, as we saw in 2020.

Taking taxable income will trigger the Money Purchase Annual Allowance, reducing the amount you can contribute to a pension each year from £40,000 to £4,000. If you are planning on making pension contributions larger than £4,000, consider accessing your pension later in life or just taking some of your tax-free cash.

By **Tom Selby**
AJ Bell Head of Retirement Policy

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Help, I don't understand the flexi-access options for pensions

Tom Selby goes through the options for taking money out of a retirement savings pot

I want to take annual lump sums from my pension pot in retirement, each made up of a 25% tax-free component and the balance in taxable income subject to my personal tax allowance. I don't want to take all of my 25% tax free at the outset.

I can't see the difference between flexi-access drawdown/ partial flexi-access drawdown and UFPLS as methods to do this. Please explain including pros and cons of each.

Peter

Tom Selby
AJ Bell Head of Retirement Policy says:

As always, let's just dig out some of that jargon first before getting to the nub of your question. Savers with defined contribution pensions like SIPPs are entitled to 25% tax-free cash from age 55, although this is due to rise to age 57 in 2028.

To access your tax-free cash, you need to 'crystallise' your pension – this just means choosing a retirement income route.

The main options available are:

- **Flexi-access drawdown:** keep your money invested and take an income to suit your needs.

- **Ad-hoc lump sums (also referred to as 'UFPLS'):** take individual chunks out of your pension pot, with 25% of each chunk tax-free and the rest taxed in the same way as income.

- **Annuity:** secure a guaranteed income for life from an insurance company in return for your pension pot.

It is also possible to combine these options.

Taking ad-hoc lump sums and partial flexi-access drawdown amount to broadly the same thing, with similar outcomes.

The key difference with partial flexi-access drawdown is you can choose to drip feed your crystallised taxable income, whereas with ad-hoc lump sums you need to take all the taxable income in one go. Drip feeding income can be useful in managing your tax liabilities.

Let's look at an example. Hilary has a £100,000 pension pot and wants to access £5,000 a year from her fund, with 25% of each withdrawal tax-free.

She could either:

- Take a £5,000 ad-hoc lump sum each year, or
- Partially crystallise £5,000 in flexi-access drawdown each year.

In both circumstances Hilary will receive £1,250 in tax-free cash, with the remaining £3,750 taxed in the same way as income. However, with flexi-access drawdown she could, for example, choose to access part of the £3,750 in the current tax year and part of it in the next tax year.

One of the main advantages of taking your pension in partial chunks – either via flexi-access drawdown or ad-hoc lump sums – is that your remaining tax-free cash entitlement has the opportunity to grow over time.

If the investments in the uncrystallised part of your fund go down in value then so will the attached tax-free cash entitlement.

You should be aware that if you plan to take single taxable withdrawals in each tax year, then it is likely you will be overtaxed initially by HMRC (this shouldn't be a problem if you decide to take a regular income). This over-taxation will only apply to the taxable part of your withdrawal.

To reclaim your tax, you will need to fill out one of the following forms:

- If you've emptied your pot by flexibly accessing your pension and are still working or receiving benefits, you should fill out form P53Z.
- If you've emptied your pot by flexibly accessing your pension and aren't working or receiving benefits, you should fill out form P50Z.
- If you've only flexibly accessed part of your pension pot then use form P55.

You can find the forms online here.

Provided you fill out the correct form HMRC says you should receive a refund of any overpaid tax within 30 days.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@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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You can find out more at:
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Latest time and date for applications under the Intermediaries Offer: 3pm on 30 September 2021.

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Going to university? Five ways to get your finances in order

Follow these steps and you'll be looking smart in no time

A new university year starts this month, and hopefully it'll be a more normal year for students hitting freshers' week than last year. But amid the packing, picking your halls and worrying about making friends, lots of people may forget some key financial things before they head off. Here's your guide to getting your finances university ready.

1 Get a bank account

An obvious place to start is to make sure you have the right bank account for your university experience. You may already have a bank account but it's worth looking around at the freebie perks on offer from student accounts and switching to one of those.

If you want a 0% overdraft the highest you can get for your first year is from the Santander 123 account, which gives £1,500 for years one to three, and then £1,800 in year four and £2,000 in year five. HSBC and Nationwide offer £1,000 in year one, going up to £2,000 in year two and £3,000 in year three onwards, but the actual amount you get depends on your credit rating.

If free borrowing isn't your bag then the Santander account also offers a free four-year 16-25 railcard (very handy for visiting friends at other universities or going home in the holidays), while HSBC gives £80 in cash as well as either £20 Uber Eats credit or a year of unlimited next-day delivery from ASOS which is worth £9.95.

If you're a saver rather than a spender then TSB could be a good option as it pays 5% interest on balances up to £500.

2 Get your loan in order

You should have already applied for any maintenance loan that you want by now, which will help towards your living costs. If you haven't then get moving, as it can take six weeks to process the application.

If you've already applied then make sure you know how much money you're going to get, so you can plan your budget. The maintenance loan amounts vary dramatically depending whether you're living away from home or not, if you're studying in London or elsewhere, and finally on your parents' earnings.

The difference between the lowest amount of £3,516 and the highest of £12,382 is dramatic, so you need to check what you're getting.

If your parents are high earners, you'll get the lower level of loans, which might mean you need to have a conversation with your parents about money, whether they can afford to help you out or

how else you're going to cover your living costs. It might not be a conversation you look forward to, but it's best to have it now rather than when you get down to your last tin of beans.

3 Renting 'need to knows'

Usually, first year students will be in halls, which prevents some of the headache of private renting. But some people might have opted for a house share and if so there are a few things to consider.

First up, deposit. You need to make sure your landlord is responsible with your deposit, as it is a big chunk of your money. You need to ensure it's been put in a deposit protection scheme, which means that if your landlord wants to charge you for something when you leave, you're much better protected against unscrupulous claims.

Your landlord has 30 days from getting your deposit to put it in a scheme, and should then tell you where the money is and details of the scheme. So, if you haven't heard from them a month after moving in, make sure you chase them.

Next up is insurance – you might not need your own policy and instead your stuff might be covered on your parents' insurance, so get them to check.

Finally, bills. If your rent doesn't include bills, you'll need to register for council tax, gas, electricity and water (and broadband if you want it). It's best that one person doesn't take on responsibility for all of these, so divvy them up among housemates.

Some people might think it's more efficient to get a joint bank account to deal with all the bills from one pot, but if you do this your credit file will be linked to your housemates, so be wary if they any have debt or a poor credit score. Instead, use a bill splitting app to keep track of who owes what among your housemates.

4 Maximise your discounts

Before you buy anything, check if there's a student discount for that website or shop. One good option is Amazon's offer of six-months' free trial of Prime Student, giving free delivery and access to free TV, music and books. Just make sure you cancel before the trial is up if you don't want it anymore.

If you're buying a new laptop or iPad, Apple offers free Airpods (worth £159) for students via the UNiDAYS website. Lots of other retailers will offer 10% off or more for students.

5 Be wary of debt

You may decide to get an account with a 0% overdraft to use as a buffer, but don't splurge it all in week one. And you may be offered credit cards with initially good rates but be wary of putting any spending on them that you can't afford to pay off straight away, as the interest can really ramp up.

There's been an explosion of buy now pay later schemes (Klarna is probably the most well-known) and while these might seem tempting, they can often lead to fees for missed payments and your debt being passed to a debt collector, which will impact your credit file – so be wary.

But if you do need to take on debt to afford basic things (not a night out) hunt out the cheapest option you can – don't rely on pricey debt like payday loans.

By **Laura Suter**
AJ Bell Head of Personal Finance

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

27 Sep: Oxford Cannabinoid Technologies. **28 Sep:** Blancco Technology, Close Brothers, Ferguson, Smiths, Transense. **29 Sep:** Avingtrans, Origin Enterprises, Quiz. **30 Sep:** Avation, Lekoil

Half-year results

24 Sep: Judges Scientific. **27 Sep:** Fireangel Safety Technology, Medica, Minds + Machines. **28 Sep:** Aggreko, Animalcare, Barr (AG), Card Factory, Digitalbox, Ergomed, Escape Hunt, Heiq, Immotion, Likewise, Lords Group, Mortgage Advice Bureau, NAHL, Next Fifteen Communications, S&U, Serica Energy, Sourcebio International. **29 Sep:** 1Spatial, Allied Minds, CMO, Futura Medical, NetScientific, Next, Sumo, Yu. **30 Sep:** Angle, Avacta, Ceres Power, MyCelx Technologies, Rockhopper Exploration, Synairgen

Trading updates

28 Sep: Pennon, United Utilities.

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