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Stocks to buy as oil and gas prices soar

TOP STOCKS FOR 2021

Great Ideas Updates Shares' top picks for 2021: still outperforming

Contents

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

05	EDITOR'S VIEW	Inflation isn't going away soon: how to protect your portfolio
06	NEWS	Soft data shows rising prices are a big concern for businesses / Merck's game changing oral Covid-19 drug shakes up biotech sector / Investors warned to be wary of FTSE 100 super-yields / Boohoo and ASOS out of fashion as shares slump / Greggs will have to work hard to succeed overseas
11	GREAT IDEAS	**New:** Slater Growth Fund / Euromoney Institutional Investor **Updates:** Hotel Chocolat / Aurora **Shares' top picks for 2021:** still outperforming
22	FEATURE	Why are bond yields rising and what does it mean for stocks?
25	FEATURE	7% motor racing bond issue could spark investor interest
27	FEATURE	Energy winners: Stocks to buy as oil and gas prices soar
34	INVESTMENT TRUSTS	Does it matter who owns the investment trust I want to buy? / City of London underperformance is a worry
41	RUSS MOULD	Why the dollar must be watched
44	ASK TOM	Why is it costing me to leave a with-profits pension?
46	EDUCATION	Charting: How a classic mathematical series can help set price targets
48	INDEX	Shares, funds, ETFs and investment trusts in this issue


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Inflation isn't going away soon: how to protect your portfolio

The drivers behind the low inflation of the past three decades are changing

The inflation story is not going away. In recent sessions we've seen an increasing number of companies talk about pressure on profit margins from rising costs and they are going to do everything they can to pass that on to the end customer.

Investors must therefore think hard about their portfolio and how it might be affected if inflation keeps rising.

While supply chain issues have been a key driver for inflation, many central banks continue to take the view that these pressures are transitory and will soon sort themselves out. However, it's not that simple. Instead, it is worth thinking about the changing forces behind inflation as they arguably point to higher prices for longer.

Jerome Powell, chair of the US Federal Reserve, recently talked about three disinflationary forces. First is demographics, such as the growth of people in places like China; second is globalisation, where cheap Chinese goods have achieved a greater share of the market, thus bringing down prices; and third is technology where the internet has brought more price transparency and made it harder for companies to raise prices.

Peter Spiller, fund manager of **Capital Gearing Trust (CGT)**, argues that these three forces are the old regime and we're now seeing different drivers for pushing prices up or down. For example, he argues that demographics are shifting as the working population is diminishing, so this is losing strength as a deflationary force.

In Spiller's view, there are two or three components to the new regime. First is green inflation, where governments are spending big on green infrastructure. 'Taxes are also disappearing on petrol and I anticipate they will be replaced by carbon taxes which will go straight to inflation. The current energy situation is also inflationary,' he says.

The fund manager also believes there is structural change such as Brexit is causing inflation. Lorry drivers aren't going to enjoy £60,000 salaries permanently, but they are unlikely to go back to old levels once the current supply chain crisis abates.

'The consensus is that the high rate of inflation will diminish. I think that is right,' comments Spiller. 'But the medium-term inflationary pressures are sufficiently strong.'

In times of rising inflation, energy stocks, real estate investment trusts and consumer staples businesses are considered good places to put your money.

Energy stocks benefit from rising commodity prices, a key driver of inflation. Real estate investment trusts own property and provide a partial inflation hedge by pushing up rental charges and potentially enjoying an increase in the value of their assets. Consumer staples sell products we need daily, so this is arguably non-discretionary spending.

Investors might also want to look funds which have a quality tilt. For example, **Fundsmith Equity's (B41YBW7)** fund manager Terry Smith likes companies with high gross margins.

A business with a high gross margin can deal with cost pressures a lot easier than one with low gross margins, and there is a bonus on top if they are able to pass on higher costs to the end-customer.

DISCLAIMER: The author has a personal investment in Fundsmith Equity

By **Daniel Coatsworth** Editor

Soft data shows rising prices are a big concern for businesses

Shift in inflation expectations is driving a new cycle of 'value rotation'

The latest service sector data, covering everything from pubs and restaurants to industrial and business companies, has shown healthy readings in the UK and US, but problems associated with inflation are brewing.

5 October saw the latest survey results from research firm IHS Markit for purchasing managers in the service sector around the world. Typically, a reading over 50 suggests rising confidence and a healthy economy, while readings below 50 indicate falling confidence. Persistently weak data usually points to a slowing economy.

For September, the flash reading in the UK was 55.4 against 55 in August, indicating a small improvement, but shortages of labour and supplies led to a seven-month backlog of unfinished work, the biggest since 2015.

Also significant was the rise in input prices, with cost inflation climbing at the second-fastest rate in 25 years surpassed only by July's reading and prices charged to customers hitting a record high.

'Service sector businesses widely noted that constrained supply, higher transport costs and rising salary payments had all pushed up inflationary pressures as customer demand recovered,' the survey noted.

The Eurozone September reading also ticked higher to 56.4, although the bloc's two largest members, France and Germany, grew at the slowest rate, and again the survey showed input cost inflation rocketing.

Concerns over higher inflation have been feeding into the stock market for weeks, driving a change in leadership not just in the UK but globally.

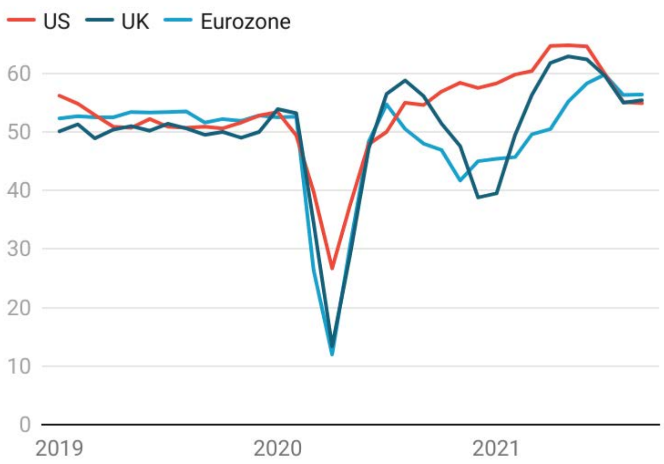
According to the latest Flow Show report from analysts at Bank of America, rotation is happening everywhere, out of growth stocks and risk assets like emerging markets into classic value sectors like energy, cyclicals and financials.

In the UK, a quick scan of the best and worst performers of the last six weeks shows lowly-rated stocks like **Marks & Spencer (MKS)**, **Babcock (BAB)** and **Royal Dutch Shell (RDSB)** at the top of the table and highly rated stocks like **Games Workshop (GAW)**, **Renishaw (RSW)** and **AO World (AO.)** at the bottom.

On a positive note, investors haven't started selling the market yet. Bank of America data shows equities (typically in 401K pension plans but also in personal portfolios) now make up 50% of the wealth of the average US household, the highest level in 70 years.

For once, cash outperformed stocks and bonds in general in the third quarter, but consistent with the inflation narrative commodities are on course for their third best annual performance since 1960 (after 1973 and 1979), even with a strong US dollar. [IC]

Service sector PMI data



Source: IHS Markit, Shares magazine • Created with Datawrapper

Merck's game changing oral Covid-19 drug shakes up biotech sector

An oral Covid-19 tablet could generate $10 billion annual revenues says Jefferies

Shares in Covid-19 vaccine makers Moderna and BioNTech lost around a quarter of their market value in the first two trading days of October after pharmaceutical company Merck released positive data for its oral Covid-19 tablet known as molnupiravir.

The tablet, taken twice daily over a five-day course, reduced the risk of hospitalisation by 50% in patients with mild-to-moderate cases of Covid-19.

Merck and partner Ridgeback Biotherapeutics said they intend to apply for emergency use which means the drug could be approved for use in high-risk patients within weeks.

Scott Gottlieb, former head of the US Food and Drug Agency, said the results of the trial were 'phenomenal' and could prove to be a game changer.

Assuming the results hold-up to peer review and safety standards, molnupiravir will be the first Covid-19 drug that can be purchased over the counter by adults who are symptomatic.

The US government has procured 1.7 million doses of the experimental drug at a cost of $1.2 billion or $705 per course. This seems quite steep compared with the estimated $20 to $30 per dose for current vaccines on the market. [MGam]

Investors warned to be wary of FTSE 100 super-yields

Data shows nine companies on 8%-plus income payouts

FTSE 100 DIVIDENDS are expected to jump 36% this year to £84.1 billion, according to figures from AJ Bell, just a fraction off pre-pandemic peaks of £85.2 billion in 2018.

That implies a FTSE 100 yield of 4.1% in 2021, but several names promise significantly higher yields.

Nine companies including **Persimmon (PSN)** and **British American Tobacco (BATS)** are currently forecast to pay dividends that yield more than 8%, roughly double the benchmark's index return. According to Bloomberg, 10-year gilts are currently yielding just over 1%.

Investors have been warned to tread carefully as high yields can often indicate the market doubts current dividends are sustainable. It is also worth checking if high yields have been inflated by one-off 'special dividends' which may not be repeated.

'The strongest long-term performance often comes from those firms that have the best long-term dividend growth record, rather than being the highest-yielding stock,' says AJ Bell investment director Russ Mould.

Investors often look for stocks offering progressive dividends as the increased payouts can over time drag the share price higher. 'A 1p per share dividend on a 100p share price may not catch the eye, but if that dividend reaches 10p in a decade's time it almost certainly will,' says Mould. [SF]

DISCLAIMER: AJ Bell owns Shares magazine. The writer (Steven Frazer) and editor (Daniel Coatsworth) own shares in AJ Bell.

Boohoo and ASOS out of fashion as shares slump

Parts of the fashion retail sector has gone from winner to loser, but names like Next and Inditex are still doing well

If online retailers were among the big winners of 2020, many have endured considerable bad luck in 2021 with share prices slumping across parts of the fast fashion sector.

Boohoo (BOO:AIM) and **ASOS (ASC:AIM)** have been seen their share prices fall by nearly 40% year to date.

Zara-owner Inditex and **Next (NXT)** have bucked the trend with double-digit share price gains. **Quiz (QUIZ:AIM)** has jumped by more than 100% year-to-date but that is from a low base, with its share price having previously been destroyed by endless profit warnings.

Fast fashion is among the many sectors encountering severe supply chain and cost issues, with online players facing the prospect of losing some of the market share that they secured last year when restrictions prevented physical shops from opening.

Recent first-half results from Boohoo were a case in point. Second quarter sales growth had slowed to 9% versus 32% in the previous quarter, substantially below analyst forecasts.

The company's net cash positioned halved and profit margin guidance was lowered slightly as it pointed to UK customers returning more items, greater competition from the reopening of physical stores, consumer uncertainty and supply chain disruption which impacted its international deliveries.

Numis suggested that Boohoo may not have gone far enough with downgrades to guidance, raising 'the prospect of further negative surprises'.

Analyst Simon Bowler added: 'Boohoo is simultaneously on-boarding multiple brands, entering new categories, new business models, new geographical footprints and new pools of sourcing. This heightens execution risk, but also means the simplicity of the equity story has been lost.'

Mixed fortunes for fast fashion

	Share price movement		
Company	**1-month**	**Year-to-date**	**5 years**
In The Style	-40.5%	-48.5%	n/a
ASOS	-15.6%	-38.8%	-41.5%
Boohoo	-21.8%	-37.5%	77.2%
H&M	1.0%	4.4%	-27.3%
Next	1.8%	16.7%	78.5%
Inditex	6.4%	22.5%	-1.3%
Quiz	8.9%	135.7%	-90.7%

Table: Shares magazine. Source: Google Finance, as of 4 October 2021

The challenge with international deliveries is one impacting the whole fast fashion space, with much of its supply coming on cargo containers from Asia, for which there is more limited availability and higher cost.

Warehouse rents are also going up, and greater returns of 'wear once and send back' party dresses is hurting profitability.

ASOS is set to announce its full year results on 14 October alongside a capital markets day where investment bank Berenberg believes investors will be most keen to hear the company's plans to reaccelerate growth in the US.

H&M saw sales beat pre-pandemic levels and expectations in the June to August quarter, but incurred supply disruptions.

Inditex's latest update benefited from a recovery in consumer demand. Its integrated approach to stock across its website and physical stores may have helped limit supply chain disruption.

Next recently said its trading was holding up well. The retailer suggested that might be down to its website offering wide choice, so it is easy for a customer to find alternatives if their desired product is unavailable. [TS]

Greggs will have to work hard to succeed overseas

But UK growth plans make sense, including longer opening hours and considerably more outlets

Having steered the company successfully through the pandemic, **Greggs' (GRG)** CEO Roger Whiteside and the rest of his well-regarded management team have outlined big plans for the coming years.

The company hopes to double turnover to £2.4 billion by 2026 and while this is an ambitious target, Whiteside's track record since taking the helm at Greggs in 2013 offers encouragement it can be achieved.

When Whiteside joined, Greggs was a well-run but somewhat tired discount bakery chain. Now it is a popular food-on-the-go outfit which has broadened its appeal in recent years to accommodate changing tastes, including demand for vegan products.

The plan is a clear one. The company wants to increase the pace of net shop openings to 150 per year from 2022 onwards; for context it expects around 100 in 2021.

In addition, it wants to boost sales by extending opening hours for around two thirds of its estate into the early evening, build on the delivery offering which expanded fast during Covid restrictions and get more people to use its revamped app.

These efforts should allow Greggs to generate more revenue on a per shop basis and therefore increase profitability and cash flow. The proceeds can then be reinvested in the business to refurbish outlets as well as boost supply chain and IT infrastructure.

There should also be cash left over to reward shareholders with enhanced ordinary and special dividends.

The company sees potential longer term for international expansion. It is probably a good thing that Greggs is treading cautiously here, in its own words 'conducting some very early analysis to help better understand the possible opportunity'.

Just because a proposition works in the UK

doesn't mean it will necessarily translate beyond these borders. Overseas markets have often been a graveyard for the ambitions of British firms in the past as they've struggled to replicate their homeland success, perhaps because of cultural or management issues. Greggs itself abandoned a five-year effort in Belgium (seen as a launchpad for wider European expansion) in 2008.

For now, investors would settle for execution on the domestic opportunity. This won't be easy, given the inflationary pressures, supply chain issues and staff shortages which Greggs, like any number of businesses, is facing.

However, the company lifted full-year guidance despite these challenges in a third quarter update (5 Oct) and notably Shore Capital retreated from its long-running negative stance on the shares, which had been driven by valuation concerns, in response.

Analyst Clive Black commented: 'We deem it sensible to step back from our erroneously over-cautious stance on the shares, remodel medium-term earnings for today's new base and strategic ambitions, and so return with refreshed financial forecasts and the corresponding investment thesis.' [TS]

Use Slater fund to find growth at a reasonable price

Why investors should entrust their hard-earned money to growth champion Mark Slater

Rising inflation expectations means that growth-hungry investors will need to be increasingly discerning and disciplined in terms of their stock picking in the months ahead.

One sensible solution is to invest in a fund where the manager has pedigree in backing dynamic growth companies without overpaying to own the shares. Step forward Mark Slater, who has managed **Slater Growth Fund (B7T0G90)** since its 2005 inception and scours the market for firms he believes are both undervalued and boast potential for a significant re-rating.

This fund has delivered more than three times the total return (capital gains and dividends) of the IA UK All Companies sector over the past five years at 113.4% versus 32.6% respectively, according to FE Fundinfo.

Son of the late Jim Slater, the financier who penned best-selling investment book *The Zulu Principle*, Mark Slater successfully employs the PEG valuation metric, which compares the price to earnings ratio with a company's earnings growth, as a screening tool to find shares which have a demonstrable track record of earnings growth, and which are inexpensive to boot.

Shares believes this is a good time to buy Slater Investments' flagship fund, since the manager has been very active in 2020 and 2021 to date, adding a variety of exciting new growth stocks to an already star-studded portfolio.

WHY SLATER GROWTH?

With a slant towards small and mid-cap stocks, Slater Growth's stated objective is to achieve long-term capital growth by investing in 'attractively priced companies that exhibit superior, sustainable growth potential'.

Mark Slater has a tried and tested methodology to find growth companies using value filters. He uses the PEG screen to help to reduce the investable universe, with other measures then overlaid such as cash flow screens.

Slater also hunts for companies with a competitive advantage such as a high market share, as well as bullish signs in recent trading updates and directors preferably buying rather than selling stock.

If a stock still looks interesting once it has ticked all these boxes, the next step is for Slater to meet management to form an opinion on them, the opportunities and risks facing the business and the visibility of earnings and margins. Investors can rest assured that he'll only put money to work with a company if all criteria are met.

In short, Slater invests in real businesses that generate hard cash, gets to know them well and holds them for a long time. His process results in what he believes is a 'sleep at night' strategy, implying that investors with positions in his fund shouldn't have to fret about their money every day.

Total return	3 years	5 years	10 years
Slater Growth Fund	65.9%	113.4%	334.6%
IA UK All Companies sector	15.3%	32.6%	147.1%

Table: Shares magazine. Source: FE Fundinfo, 5 October 2021

SLATER GROWTH FUND

BUY

(B7T0G90) 901.84p

Fund size: £1.4 billion

RUNNING HIS (MANY) WINNERS

Speaking to *Shares*, Slater says he will happily run his winners so long as they are delivering the earnings growth to support their equity ratings.

Scrutiny of the latest available top 10 shows holdings in the likes of **Future (FUTR)**, the media group employing a highly successful strategy that involves leveraging editorial content, ESG-minded asset manager **Liontrust (LIO)**, as well as marketing platform **Dotdigital (DOTD:AIM)** and biopharmaceutical company **Hutchmed (HCM:AIM)**.

Another top 10 holding is **CVS (CVSG:AIM)**, the integrated veterinary practices play whose shares hit an all-time high last month after it reported (23 Sep) better than expected growth in full year sales and profits.

'We like the secular growth story,' says Slater. 'People are spending an awful lot more on their pets than they used to.' An operationally geared business, CVS' earnings 'have dramatically exceeded expectations and like-for-like growth is really strong,' enthuses Slater.

Readers may point out that some of the stocks mentioned above trade on high price to earnings multiples. It is important to remember that the fund manager is comparing this valuation metric with the pace of earnings growth, so on a PEG basis many portfolio names are likely to look good value.

Top five sectors

Media & Entertainment	14.6%
Commercial & Professional Services	12.0%
Pharmaceuticals & Biotechnology	10.1%
Software & Services	9.8%
Consumer Services	8.3%

Source: Slater Investments, as of 31.8.21

RECENT ADDITIONS

Though Slater Growth has sensibly 'taken money off the table here and there', the last company sold outright was racing games developer Codemasters, and this was only due to a premium-priced takeover by Electronic Arts earlier this year as opposed to any stock selection faux par.

One detractor to performance of late has been **Clinigen (CLIN:AIM)**, the specialist pharmaceutical products and services group which plunged following a June profit warning and subsequently announced a further earnings downgrade with the full year results (16 Sep).

Nevertheless, the company remains in Slater Growth's top 10 and the arrival of US activist Elliott Associates on the shareholder register suggests we might see changes to the business.

TOP 10 HOLDINGS

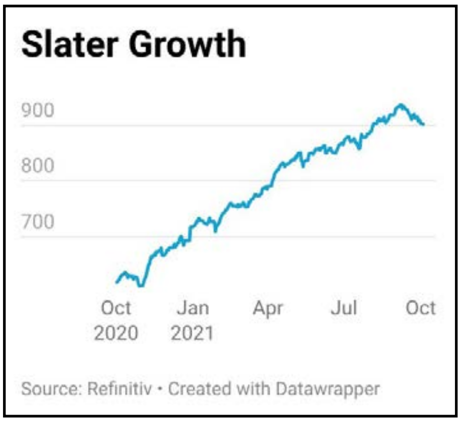
Future	9.5%
Prudential	4.1%
Next Fifteen	3.4%
Liontrust Asset Management	3.3%
Clinigen	2.9%
Dotdigital	2.8%
Alliance	2.8%
Hutchmed	2.8%
Gamesys	2.8%
CVS	2.8%

Source: Slater Investments, as of 31.8.21

Slater Growth has been very active in terms of new purchases in 2020 and 2021. Last year, Slater Growth invested in **Kape Technologies (KAPE:AIM)**, the acquisitive digital security-to-privacy software business, then topped up the holding by participating in the group's recent share placing.

Reassuringly, Slater says the business is cash generative and has 'good growth dynamics and pricing power', the latter quality welcome in an era of rising inflation.

New investments made this year include media group **Reach (RCH)**, e-commerce service group **Clipper Logistics (CLG)** and outsourcing firm **Serco (SRP)**. [JC]



Euromoney looks smart as it reaps benefits of earlier deals

Earnings are expected to start improving and there is a lot to like about the business

EUROMONEY INSTITUTIONAL INVESTOR
BUY
(ERM) £11.12

Market cap: £1.2 billion

There are three reasons why shares in media group **Euromoney Institutional Investor (ERM)** are worth buying now.

First, it is reaping the benefits from a series of bolt-on acquisitions and a rise in subscriptions from its data services.

Second, this success was reflected in a recent trading update, and has provided Euromoney with the firepower to make larger acquisitions which could drive significant earnings growth. The group is currently evaluating deals in the American wealth and asset management sectors.

Third, the events business could provide an unexpected boost to earnings as people increasingly take advantage of the more relaxed travel and social distancing regulations.

On 1 October it said pre-tax profit for the year to 30 September would be significantly ahead of analyst expectations thanks to strong growth in subscriptions in pricing, data and market intelligence.

Three acquisitions made between 2018 and 2020, BoardEx, Wealth-X and Wealth Engine, have enabled Euromoney to build a leading data intelligence business which is now delivering significant returns for the group.

Chief financial officer Wendy Pallot has emphasised that untapped bank facilities coupled with the £35m of net cash on its balance sheet will enable the group to transition away from bolt-on acquisitions to larger deals.

In May, Fran Cashman was the first appointed CEO of the asset management division that brings together the Institutional Investor, BCA and NDR brands. An acquisition in the asset management space would build scale and scope to a business segment where the turnaround is continuing to progress ahead of plan.

Euromoney was badly impacted by Covid-related social distancing rules that forced it to cancel corporate events.

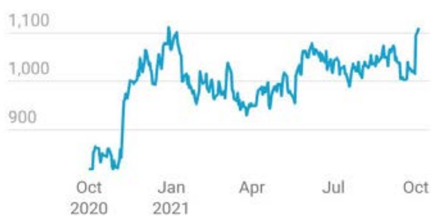
A trading update in July revealed that underlying growth for the events business declined by 48% for the nine months to June 2021. However, the easing of travel and social restrictions in recent months has created a more conducive environment for this segment of the business.

Pallot highlighted the success of a recent event in London for the asset-backed securities industry, which bodes well for this part of Euromoney going into 2022.

According to Numis media analyst Steve Liechti Euromoney's shares look left behind as the market debates and focuses on value/recovery and data/recurring revenue models. 'Euromoney has both and some nice self-help,' he adds.

Numis forecasts 51.9p earnings per share for the year to September 2022, which means the stock is trading on a price to earnings multiple of 21.4. It offers a 1.9% prospective dividend yield. [MGar]

Euromoney Institutional Investor



Source: Refinitiv • Created with Datawrapper

HOTEL CHOCOLAT

(HOTC:AIM) 437.5p

Gain to date: 17.9%

Original entry point:
Buy at 371p, 29 July 2021

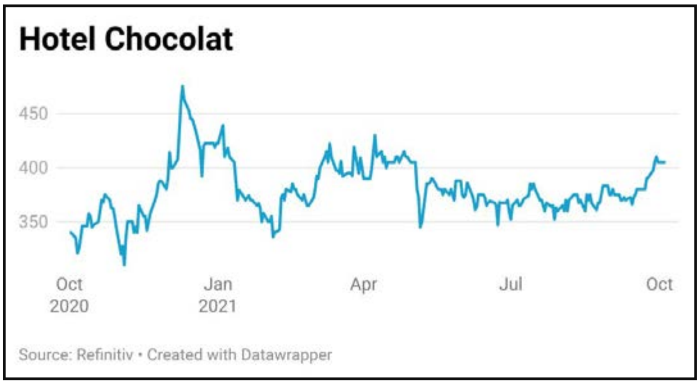
OUR BULLISH CALL on luxury chocolatier **Hotel Chocolat (HOTC:AIM)** is performing very strongly despite a challenging backdrop.

The shares were marked higher on forecast-beating full year earnings (5 Oct) and news of a robust start to the new financial year.

Despite the physical store estate being closed for six months of the year ended 27 June 2021, Hotel Chocolat delivered revenue growth of 21% to £165 million while pre-tax profit jumped from £2.4 million to £10.1 million, comfortably ahead of analysts' forecasts, as rapid-fire digital growth more than offset retail disruption.

Growing the active customer database, Hotel Chocolat is making good progress in its two new and sizeable markets of the US and Japan and has also ramped up its commitment to becoming the world's most sustainable chocolate brand through the introduction of its 'Gentle Farming Charter'.

Liberum Capital believes the company generated 'very strong double-digit growth' in the opening 13 weeks of the new financial year and is excited about Hotel Chocolat's upcoming first TV campaign for the Velvetiser in-home hot chocolate system. The broker has a 'buy' rating and 620p price target on Hotel Chocolat, implying almost 42% upside from current share price levels.



SHARES SAYS: ↗
Stick with Hotel Chocolat. [JC]

AURORA INVESTMENT TRUST

(ARR) 214.3p

Gain to date: 26.8%

Original entry point: Buy at 169p, 22 Oct 2020

A ROTATION OUT of value and back into growth saw our gains on **Aurora Investment Trust (ARR)** eroded in recent months but signs that bargain stocks are back in favour could help reverse this trend.

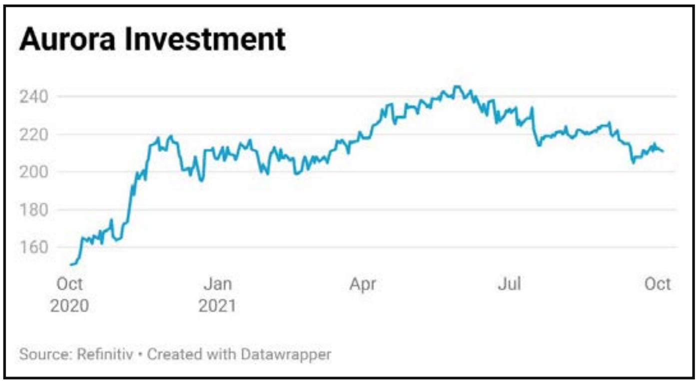
The first half results revealed an 8.5% increase in its net asset value, lagging the FTSE All-Share's commensurate 11.1% return.

However, with a shift in sentiment potentially helping Aurora, this underperformance could well be turned on its head in the second half.

Post the period end shareholders approved Aurora's investment in sister fund Castelnau, an investment trust which will also be run by Phoenix Asset Management.

Castelnau is set to account for 15% of Aurora's holdings and it will hold a mixture of quoted and unquoted businesses, some of which are currently held directly by Aurora but those positions will be exchanged for shares in the new vehicle.

The new investment trust's strategy is to revamp old-fashioned British businesses, including names such as toy train outfit **Hornby (HRN:AIM)** and stamp dealer **Stanley Gibbons (SGI:AIM)**. Read more about Castelnau, which floats on 18 October, here.



SHARES SAYS: ↗
We remain fans of Aurora's approach of buying solid, undervalued businesses. Buy. [TS]

Shares' top picks for 2021: still outperforming

TOP STOCKS FOR 2021

Half of our selections have put up double-digit gains but the losers have sunk further of late

Despite a fuel crisis, ongoing inflation worries and the end to the furlough scheme, *Shares*' top picks for 2021 continue to outperform the wider stock market.

But while the FTSE All-Share index ultimately did very little during the third quarter, adding just 44 points, or about 1.1%, our 12-stock selection continued to present us with successes and challenges aplenty.

Half a dozen of our picks have put up double-digit returns in the three months to 30 September, yet losses from our three worst performers have accelerated, slashing our 28% outperformance over the FTSE All-Share at the half year stage (30 June) to a little more than 5% at the end of September.

SHARES'
TOP PICKS FOR 2021
+12%
UK STOCK MARKET
+11.4%

SHARES' 2021 PORTFOLIO

Company	Entry price (p)	Price now (p)	% gains / loss
Eurofins Scientific	€ 69.99	€ 109.40	56.3
Tracsis	630	964	53.0
Inspecs	271	393	45.0
Wetherspoon (JD)*	1007	1218*	21.0
Diageo	2945	3535	20.0
RWS	534	619.5	16.0
Qinetiq	299	319	6.7
ConvaTec	204.6	213.7	4.4
PZ Cussons	233	225	-3.4
BHP	1983	1864	-6.0
Ocado	2301	1673	-27.3
Alibaba	$256.22	$148.05	-42.2
Total			**12.0**
FTSE All-Share	3624.3	4036.5	**11.4**

Entry prices taken 21 December 2020. Latest prices taken 1 October 2021. *Wetherspoon position closed on 25 June 2021.

The standout performer is now Paris-listed Eurofins Scientific, the world leader in food, biopharmaceutical and cosmetics product testing and environmental laboratory services, following a positive update in August.

RECORD RESULTS FOR EUROFINS

Eurofins posted record half-year numbers, where revenue jumped 40% to €3.3 billion and earnings before interest, taxes, depreciation and amortisation more than doubled (up 104%) to €1 billion, for the €20 billion valued company. That was encouraging enough but word that margins had risen from 21% to 30.3% this year saw the firm substantially raise full year guidance.

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

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

Transport infrastructure and analytics software company **Tracsis (TRCS:AIM)** also continues to shine, up 53% since our December 2020 article.

The Williams-Shapps Plan for Rail in the UK announced at the beginning of August promises to be a strategic revolution that should provide Tracsis with excellent opportunities to bring its smart, technology-led innovations to all stakeholders in Britain's railways.

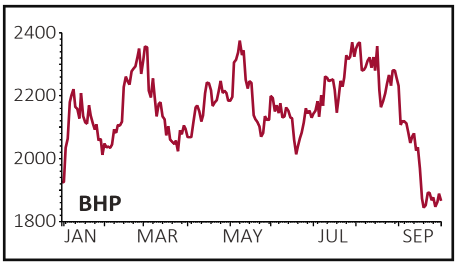
The company had, at the time, just won a significant expansion deal for its RailHub digital platform that allows railway workers to plan and deliver safer work on the network by providing better and more visual information. The new agreement doubled RailHub's user base to over 30,000 individuals, news that was welcomed by the market.

COVID BOUNCEBACK

Eyewear frames specialist **Inspecs (SPEC:AIM)** has performed strongly with recent first half results showing that the company is rapidly bouncing back from a Covid horror show, with sales recovering fast and margins being rebuilt.

But of course, we must not ignore the ugly sisters among our picks. **Ocado (OCDO)** has been something of a dog for most of the year after a strong start to 2021.

Sentiment towards the robotics-led groceries platform wasn't helped by a robot collision in July which led to a fire at its Erith facility. An incident which will cost the company millions of pounds for repairs and potentially damage its reputation with prospective clients for its out-of-the-box online supermarket offering.



Our healthy gains on **BHP (BHP)** have evaporated of late for two key reasons. One is the trajectory of metal prices. Concerns about the impact of the Evergrande property crisis and wider Chinese economic malaise on the world's largest consumer of metals have seen markets like copper and iron ore come under pressure.

Notably China's policy to force steel production down by 10% between August and December effectively creates a surplus of iron ore globally. The other issue weighing on sentiment is BHP's decision to cancel its dual-listed company structure, with the result that its shares will have a primary listing in Australia and it will therefore no longer qualify for membership of the FTSE 100.

Assuming shareholders give the green light, this change is expected to happen in the first half of 2022. While mindful of these risks, we think the recent sell-off in the shares means they are largely being priced in and it would therefore be a mistake to sell at this point. There are upsides to the simplification of the corporate structure, not least its ability to use shares in acquisitions.

Also, short-term headwinds for metals demand could soon shift as planned infrastructure spending coming out of the pandemic begins to ramp up.

Jefferies comments: 'The mining sector has been hit hard by Evergrande and the potential impact on China's demand for metals. A disorderly downturn would be problematic but appears to be unlikely. A soft landing would be a positive for mining shares following the recent pullback, in our view.'

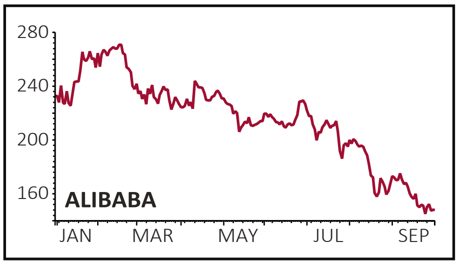
ALIBABA DISAPPOINTS

Shares in Chinese e-commerce platform giant Alibaba (we flagged the New York-listed ADRs as the way of getting exposure to the stock) remain in terrible shape after a 2021 dogged by a regulatory scythe that has massively impacted everything in the Chinese tech space.

The stock fell further through September on reports that Chinese regulators have ordered Ant Group, which runs the engine behind Alibaba's popular Alipay payments service, to carve out its lending businesses into a separate entity.

While earnings for the second quarter of its March 2022 financial year are expected to be sharply lower year-on-year, presumably as online shopping eases up now that stores across China are reopening, analysts remain hopeful that the company can reach some sort of deal with China's authorities.

An agreement could put an end to the current regulatory death by a thousand cuts, and most interested observers are cautiously optimistic about



the future.

According to Refinitiv data 45 of the 49 analysts that cover the stock have a 'buy' rating. Revenues are forecast to continue their upwards path this year and in the years ahead, while after this year's dip in earnings (from $65.15 in 2021 to $60.14) strong growth is expected to resume from 2023.

We continue to believe that selling the shares into such a weak market now and locking in heavy losses would be a mistake and that investors should give the company time to negotiate with authorities.

Elsewhere, **Diageo (DGE)** remains a steady performer among our picks, with gains to date of 20% after signalling a strong start to its current financial year and a positive outlook for margins on 30 September.

Investors have also warmed again to the story at language services and language technology **RWS (RWS:AIM)**, with further value still to be extracted from its tie-up with SDL. [SF]

Schroders

Shell and BP: why we're hopeful for a sensible transition to renewables

We think the major UK-quoted energy companies are in a good position to shift towards clean renewable energy sources.

By Sue Noffke, manager of Schroder Income Growth Fund plc

The devastating effects of unchecked global warming were laid bare by the recent landmark report from the Intergovernmental Panel on Climate Change (IPCC).

UN secretary-general António Guterres described the report's findings as "a code red for humanity".

The world's major energy companies were already on the front line of the climate change battle, but following this week's report public scrutiny of the industry can only intensify.

More than ever, the industry is under pressure to make huge changes to transition to clean renewable energy sources. The industry's core activities of exploring, acquiring and developing fossil fuels are under the spotlight and companies need to act.

Fortunately for investors in UK-quoted BP and Royal Dutch Shell, their management teams are rising to the challenge. They are adapting rather than denying.

We had further evidence of the shift in attitudes when Shell's CEO took to LinkedIn in June to announce an acceleration in the company's transition strategy. This pledge followed a Dutch court ruling which effectively said Shell should move faster with GHG emission reduction targets globally.

Getting a handle on transition plans

Regarding the Dutch court ruling, we are not convinced it's possible to solve a global problem by targeting a single company through one country's judicial system (more on this and potential unintended consequences later).

The wider point, however, is that Shell is tackling the transition head on. It has now set out plans to future-proof its business model with a goal to become a net-zero emissions energy business by 2050.

As investors, our primary aim is to provide excellent investment performance for clients. In a future where "impact adjusted profits" will count, how well energy groups transition to renewables will be key.

Will the energy groups be able to generate attractive returns in tomorrow's investment world? We are getting much closer to answering this question.

Before and after Covid-19

Prior to the pandemic, we took the view that the major UK-quoted energy companies would struggle with the transition.

We're now more optimistic. This is partly due to the major shifts in attitudes already noted. But it's also as a result of their "fundamentals", such as profit-generating potential, and financial, or balance sheet strength. Valuation is also key.

In 2019, BP and Shell were heavily committed to paying dividends and buying back stock from shareholders. Additionally, they had ongoing obligations to service their significant debt levels.

At that time, combining these commitments with the significant required investments in renewable energy sources did not seem to us to add up.

As a result, we began to take a negative stance on the sector in the second half of 2019, moving to an "underweight" position (holding a lower weighting than our benchmark index has).

Always open to changing our minds

We constantly review the investment case for companies and are always open to changing our minds. This is often on the basis of valuations, which, for Shell and BP, were not as appealing prior to the pandemic.

Meanwhile, dividends were rebased to more sustainable levels in 2020, and improved disclosures give us a sense of what is required to implement their transition strategies.

The oil price has recovered well from the lows of early 2020, which is helping with cashflows and with managing the indebtedness. High debt levels can impede their ability to invest in renewable energy sources and technologies but they are not an insurmountable challenge.

We had made clear to Shell we would support the company in actions it took to move faster and further towards a lower GHG emissions. We first engaged with the company on its climate ambitions 19 years ago.

It was great therefore to see the company put its energy transition strategy to a shareholder vote at the AGM in May. This is a well thought out, responsible and achievable strategy.

A few days later the Dutch court made its ruling. The speed at which the company subsequently communicated an intention to accelerate plans only formally adopted a few weeks prior is telling.

Sensible approach is key

We continue to support Shell in transitioning at a pace right for the company, and which is likely to have a best result for the world.

We all want net zero GHG emissions by 2050, but it will take time, much investment and new technologies. A sensible approach in key.

Shell could react to the court case – brought by Milieudefensie (Friends of the Earth Netherlands) and other non-governmental organisations before Shell had chance to set out its strategy – by disposing some of its fossil fuel assets and reinvesting the proceeds into renewables.

Whether that would help the world shift from a system based on fossil fuels to clean, renewable energy, however, depends on who ends up buying these assets.

The sale of a fossil fuel asset does not mean that it will suddenly stop emitting GHGs, it is simply a transfer of ownership. In many cases, publicly listed companies with transparent reporting and shareholders to answer to are the most responsible stewards of these assets.

It could well be in the world's interests for Shell to manage the decline of its fossil fuel portfolio and reinvest the cash generated each year into renewables.

There are clearly issues with trying to solve a global problem by targeting a single company through one country's courts. Shell is appealing against the ruling. We have some sympathy with its position.

Risk of unintended consequences

There are parallels to be drawn with how we approach such challenges as long-term investors.

Yes, we could have a blanket policy to exclude energy companies from our investments, but blunt approaches to complex challenges are not the best way to speed up change. In fact, they can be counterproductive.

The Dutch court decision could open the door to all EU companies, including other heavy GHG emitters, being subject to similar rulings.

This could have a knock-on effect for oil prices globally given the importance of European energy majors to supplies. It's clear there are potential wider consequences for all stakeholders, including potentially higher inflation and more restrictive monetary policies such as higher interest rates.

These all need to be carefully thought through. Engaging and encouraging the energy groups to accelerate investment is a much better approach. The transition is going to take time.

We know there needs to be significant technological innovation to achieve net zero in GHG emissions by 2050. A rushed or disorderly transition is in nobody's interests.

UK energy groups ahead of curve

In Shell and BP, UK investors have two major global energy companies which are both relatively well advanced with their transition strategies versus US peers, for instance.

They have already made significant commitments to deploy capital to make the required changes happen. Now is the time for a calm and sensible approach to a complex challenge, in the interests of all stakeholders.

For more information on our Investment Trust range, subscribe to our newsletter.

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Please remember that the value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.

Marketing material.

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Why are bond yields rising and what does it mean for stocks?

Equity investors really need to keep an eye on US and UK bonds

For global investors who want to spread their risk by allocating money across different asset classes, the US 10-year Treasury bond is pretty much the first thing they buy.

To all intents and purposes, the yield on the 10-year T-bill, as it's known, is the world's risk-free rate, against which all investments are measured. That's because the US has never defaulted on its debt.

In the space of a week, the US 10-year yield has risen sharply from 1.25% to 1.5%, which on the face of it doesn't seem much but it means the cost of issuing new debt has risen by a fifth. It is also one of the quickest moves up in US Treasury yields the market has seen in a very long time.

Almost immediately, US stocks have begun to fall, but the question is why?

Furthermore, what does a rise in US – and UK – bond yields mean for equity investors? Read on to find the answers.

RISKS INCREASING

We said the 10-year yield was the world's risk-free rate, which means other investments must yield a premium over this rate commensurate with the risks involved.

Equities are riskier than government bonds, so they must yield more. If the risk-free rate jumps as sharply as it has of late, there is a knee-jerk reaction by global investors to sell risk assets.

There are several reasons why US yields moved up so sharply. First, now that the US economy is back on track, the Federal Reserve has said it will buy fewer US bonds, which is how it has been injecting liquidity into markets.

If the Fed isn't supporting bond prices to the same extent, prices will likely fall meaning yields will rise.

Second, US inflation is currently running at 5.3%, way above the Fed's official 2% target. For all the arguments about inflation being 'transitory', it is taking its time in falling. If it remains stubbornly above the Fed's target, the central bank will have no choice but to raise interest rates.

In the past, when the Fed has raised rates too soon it has choked off the recovery, as it did after the great financial crisis. How soon is too soon is the subject of great debate right now.

ARE RISING RATES BAD?

Rising interest rates aren't necessarily a bad thing. For starters, investors with large amounts of cash savings have been getting little to no interest for several years and would be very happy to see rates rise.

Similarly, the banks would like to see rates rise as they have been mired in a low-rate environment where they have barely been able to eke out a margin between their loans and deposits. The higher rates go, the better for the banks.

Also, rising official interest rates are usually a sign that an economic recovery is complete and that businesses are healthy enough that they can bear a higher rate of interest on their debts.

However, if the economy hasn't fully recovered and inflation remains high, we could be in a state known as 'stagflation', where costs are rising but growth slows, and unemployment rises because companies are trying to cut costs.

WHAT DOES IT MEAN FOR STOCKS?

If the spike in yields is temporary and there is no increase in official interest rates – which is certainly the party line in the UK and the US, although central banks in several other countries have already raised their benchmark rates – then stocks are likely to shrug off their worries and resume their upward trend.

What matters though are expectations, because stock prices are essentially driven by investors' and companies' hopes for the future, not the past.

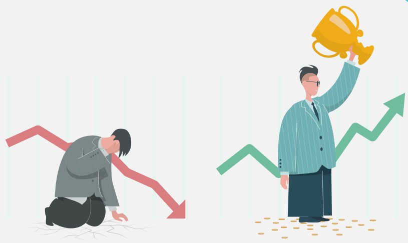
Once investors begin to assume that inflation and interest rates will rise rather than fall, they start looking for stocks with higher returns. Those that pay little or no dividend – for example, stocks which are fast-growing and need to reinvest all the cash they generate to keep growing – start to look less attractive.

Typically, high-growth companies tend to trade at a premium to the market, so investors may move to take profits and recycle them into cheaper stocks, in particular those with a higher cash flow or dividend yield than the market.

Stocks which are considered risky – and which need to offer higher returns to make them attractive to investors – are also likely to see profit-taking as money flows into safer alternatives.

'Long-duration' stocks, which compound returns over a very long time – rather like a bond which compounds over 10 years – also tend to trade at a premium to the market, making them vulnerable to selling.

Therefore, we could see another phase of 'value rotation' in the market, where banks, raw materials, energy and other 'cheap' stocks start outperforming and 'quality' stocks including technology and growth companies underperform.



WINNERS AND LOSERS IF THE MARKET PREDICTS MORE INFLATION AND RISING INTEREST RATES

- Banking stocks
- Energy stocks
- Mining stocks
- Value stocks

- Fast growth stocks offering little or no dividend
- Fast growth stocks trading on a premium rating
- Long duration stocks trading on a premium rating
- High risk stocks

By **Ian Conway**
Senior Reporter

KNOW THE SCORE

If you thought ESG scores simplify ESG investing, you would be right, but not in a good way.

The value of an investment in the fund, and any income from it, can fall as well as rise and investors may not get back the amount invested.

We believe that, in many cases, passive high-yield investing underperforms its active equivalent. By contrast, owning handpicked, resilient companies allows us to capitalise on the market's imperfections. But what of passive environmental, social and governance (ESG) investing? Is this one area where a simple, rules-driven approach does pay?

The assessment of issuers is often based on an external ESG rating, but the scoring criteria don't always include some of the most important dimensions of a company's value, such as culture, customer loyalty and capacity to innovate.

Even assuming external scores are perfect, if clients want to direct capital towards a sustainable future, why limit that support to companies already considered 'sustainable'? If 'controversy is only dreaded by the advocates of error', should capital not support businesses that seek to rectify and compensate for any ESG weaknesses?

Digi Communications is the leading provider of internet, pay TV and mobile services in Romania and a significant investor in the country's infrastructure, driving socioeconomic empowerment and enabling people in disadvantaged areas to connect. Despite some historic governance risks relating to business ethics, which we felt had been addressed by new policies in 2020, we took a small holding as we couldn't identify any financially material penalties via stress testing. Instead, we are being rewarded with a yield premium versus European incumbent peers.

We engaged with Digi Communications to challenge management on internal policies and to monitor its planned improvements – adjusting our holding depending on progress. While Digi didn't warrant a perfect score, this company-specific and nuanced approach to ESG does matter.

When it comes to ESG investing, we look beyond numbers and engage with companies. This is how to create actual change.

ANNUAL DISCRETE PERFORMANCE
HIGH YIELD BOND FUND

	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
Class B-Inc (%)	12.6	1.7	6.7	-0.6	9.6
IA £ High Yield Sector (%)	10.4	1.0	5.2	-2.3	13.5

Performance source: FE, total return in sterling.

Past performance is not a guide to future returns.

The manager believes this is an appropriate comparison for this fund given the investment policy of the fund and the approach taken by the manager when investing.

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All data as at 31 July 2021 and source Baillie Gifford & Co Limited unless otherwise stated.

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7% motor racing bond issue could spark investor interest

It is being issued by a vehicle linked to Aston Martin's F1 racing team

Investors looking for a better yield than cash and the UK equity market in general might be interested in a new retail bond launching in November with a 7% coupon, paid semi-annually.

The bond will be issued by AMR GP Finance, a private company linked to the Aston Martin Cognizant F1 racing team.

AMR GP Finance is a special vehicle created to issue the bond and is ultimately controlled by the Aston Martin F1 team owner AMR GP, itself part owned by billionaire Lawrence Stroll who is executive chairman of car maker **Aston Martin Lagonda (AML)** and the F1 team operator.

The bond proceeds will fund the development of a new campus project and high-tech wind tunnel at Silverstone which is known as the Silicon Valley of the F1 world for engineers.

Two years' worth of interest on the bond will be held in escrow to ensure coupons are paid for the first 24 months. After that point, it is hoped that the F1 team will have more money coming in from sponsorship deals and prize money to cover the remaining three years' worth of coupons and repayment of the bond capital.

Bonds are a type of IOU or debt issued by companies looking to attract investment for various corporate purposes. They typically pay an annual coupon with a fixed term.

They tend to be less liquid than shares, so buying them usually involves calling up your investment platform provider to get an indication of price, although customers should pay the same transaction cost as online dealings. New issues on the other hand can be purchased electronically in a similar way to new issues in shares.

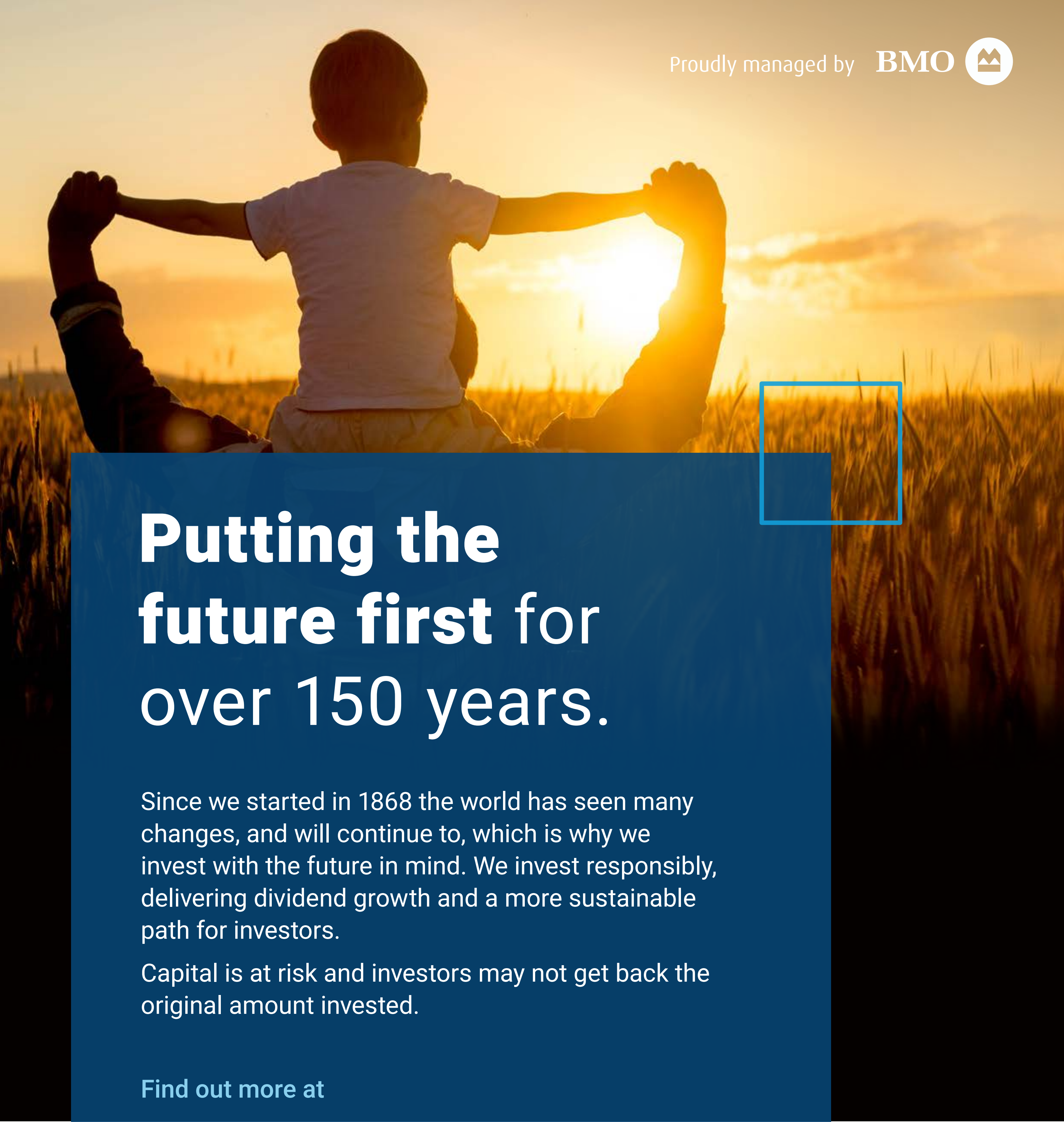
The AMR GP Finance bond has a five-year term and can be purchased with a minimum £1,000 then £100 increments thereafter. It will list on the London Stock Exchange's ORB retail bond platform, which includes bonds from the likes of **Prudential (PRU)**, **Severn Trent (SVT)** and **Aviva (AV.)**.

Investors tempted by the generous coupon on the AMR GP Finance bond should note the phrase 'fool's yield'. Coined by bond hedge fund manager Dan Rasmussen, it refers to the fact that higher yielding bonds have historically given investors poorer returns than lower yielding, but better-quality bonds. That's because poorer quality bonds are more likely to default than higher quality, and lower yielding investment grade bonds.

While the high yield on the AMR GP Finance bond suggests that some caution should be exercised, the F1 team owner appears to be seeing some momentum and was trading close to EBITDA (earnings before interest, tax, depreciation, and amortisation) break-even in the six months to 30 June.

The company has seen a 300% increase in sponsorship income to around $300 million demonstrating the pull of the Aston Martin brand.

By **Martin Gamble**
Senior Reporter



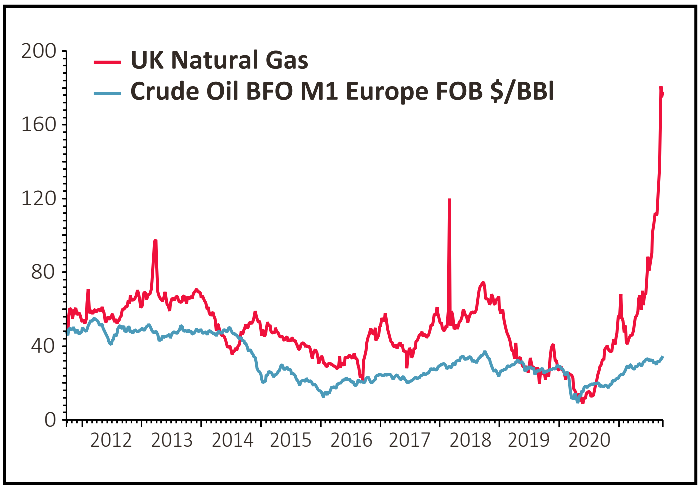
ENERGY WINNERS:

Stocks to buy as oil and gas prices soar

By **Tom Sieber** Deputy Editor

Soaring energy prices and fuel shortages are leading to punch ups at the pumps and spiralling bills for consumers and businesses. However, the current turmoil is not bad news for everyone.

The oil and gas sector, which has been a strong performer so far in 2021, is gathering even greater momentum as we head into autumn as natural gas markets reach record levels and oil trades above $80 per barrel for the first time in three years.



Investors may be concerned they have missed any opportunity to play rising oil and gas prices given a strong run for energy stocks in recent weeks. However, we believe there is further upside on offer for two reasons.

First is that investors are yet to see much evidence of this recent surge manifested in companies' profit, cash flow and dividends. We think as these numbers start to filter through, they will act as a further catalyst for share prices.

The other is that we are still potentially in the early stages of this crisis. We are yet to hit the winter months when demand for gas for heating will rise significantly.

Futures prices imply a UK gas price of 220p per therm in the fourth quarter and 125p per therm for 2022. For context, in February 2021 prices stood at less than 50p per therm.

In this article we highlight four stocks which we believe will be energy winners in the short to medium-term as well as highlighting some funds which offer diversified exposure to this theme.

There are several key risks to investing in oil and gas companies at present. First, smaller operators can often be affected by technical issues which can affect their output. Second, commodity prices can be highly volatile, and this makes profit and cash flow unpredictable. Finally, there is a risk that, given the pressure on public finances and on ordinary consumers, governments look to take a slice of the profit companies are generating from strong energy prices in the form of a windfall tax.

BOOSTING SUPPLY: NOT SIMPLE

While the old adage has it that the cure for high prices is high prices, i.e. demand will reduce and/or supply increased accordingly, oil and gas production cannot just be switched on and off at the flick of a switch.

The combination of a big slump in commodity prices in the initial phases of the pandemic as demand dried up and a shift towards cleaner sources of energy means investment in oil and gas projects has been low.

In fact, this trend has been in motion since the previous oil price crash in 2014 which prompted a wave of industry belt tightening.

Even if the large oil firms turn more aggressive again, it can take years to get a new oil or gas field on stream, so this wouldn't have any impact on global output for the foreseeable future.

Demand may also take some time to fade, given the emergence from the pandemic has, to borrow Boris Johnson's analogy, been like the world turning on the kettle at the end of a TV programme writ large.

A CASH WINDFALL FOR BP AND SHELL

The parsimonious approach to spending pursued of late by the likes of **BP (BP.)** and **Royal Dutch Shell (RDSB)** means these increasingly streamlined businesses are likely to be generating lots of cash flow at current energy prices.

This looks set to be reflected in their respective third quarter updates on 2 November for BP and 28 October for Shell.

Despite both announcing drastic cuts to their dividends in 2020 both offer attractive yields. The recent strength in both the oil and gas markets creates potential for a positive surprise on the dividend too.

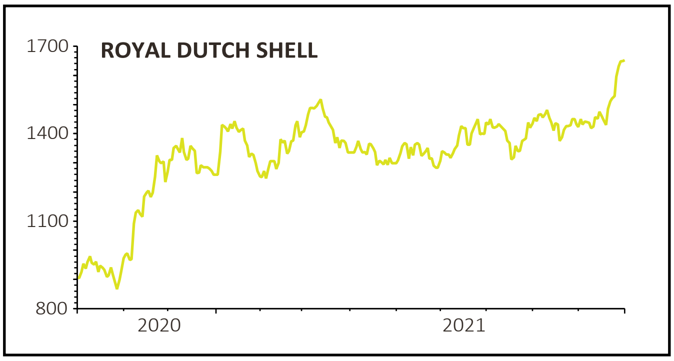
Of the two businesses we see more potential in Shell given its greater focus on natural gas.

Gas accounts for around half of Shell's total production compared with a much smaller proportion at BP. Shell is also the market leader in a buoyant LNG (liquefied natural gas) market.

GENEROUS DIVIDEND YIELDS FROM BP AND SHELL

Based on consensus forecasts BP offers a 2021 dividend yield of 4.7% rising to 4.8% in 2022, while Shell is on a 2021 yield of 4% and a 2022 yield of 4.4%.

BUY SHELL AT £16.42



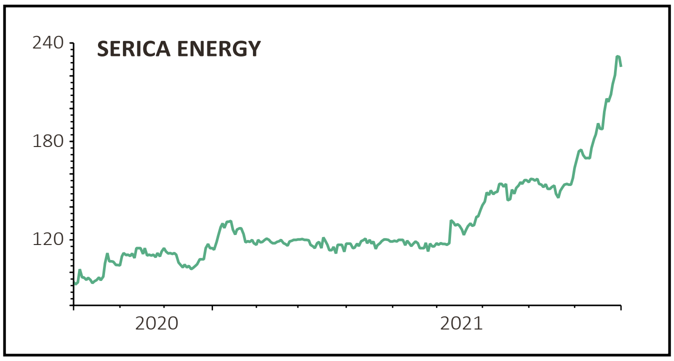
The current crisis has been caused in part by the inherent unpredictability of renewable energy and while the development of battery storage technology will help, natural gas, as a lower emitting source of energy than coal or crude oil, is likely to play an important role for some time in supplementing solar and wind power.

SMALL AND MID-CAP PLAYERS

The oil and gas universe in London is large, with around 100 different businesses ranging in size from Shell with a market cap of more than £100 billion to **Curzon Energy (CZN)** at less than £1 million.

One business which has moved rapidly up the market cap ranks in recent months is **Serica Energy (SQZ:AIM)** which benefits from a large amount of UK North Sea natural gas production at a time of surging domestic wholesale gas prices.

BUY SERICA AT 223.8p



Many oil and gas companies look to make their production revenue more stable by hedging prices through contracts which guarantee a specific price for a commodity. This protects them from any downside but also can limit the upside.

In Serica's case, hedging has had some impact on profit – with the company booking a £30.3 million accounting loss related to hedging in its first half results (28 Sep). However, some 80% of its projected oil and gas output is unhedged and the company gave a strong hint alongside the recent numbers of a generous full-year dividend to reflect the benefit from commodity price strength.

As broker SP Angel observes: 'Serica's production is over 80% gas and the company is already seeing the benefits of increasing production levels at a time of record high wholesale gas prices.'

As well as funding generous dividends, strong cash flow should help the company progress its assets, with the Columbus field (75% gas) expected to come on stream in the fourth quarter of 2021.

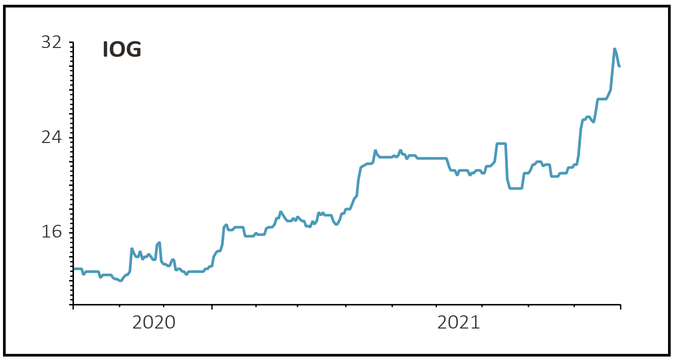
Another domestic hydro-carbons producer, **Harbour Energy (HBR)** looks likely to see a less significant impact on profitability from rising gas prices due to hedging.

Investment bank Berenberg says: '(Harbour's) exposure to the strong gas price environment is limited.'

It calculates that a 5p per therm increase in its second half of 2021 gas price (from a base case of 67p per therm) would result in just a 5% increase in 2021 EBITDA (earnings before interest, tax, depreciation and amortisation).

A smaller North Sea focused firm could be in line to benefit from firmer prices in the near-term as it approaches the point of maiden production.

On 29 September **IOG (IOG:AIM)** announced successful results from the latest development well on its Blythe field, keeping it on track for first gas from Blythe and its other field, Elgood, before the end of 2021.



FinnCap analyst Jonathan Wright says: 'This production will be coming on stream into an exceptionally strong UK gas market, driving material cash flows that will ease any funding pressures on Phase 1 of the development. The finish line is in sight, and IOG is on the cusp of becoming a material North Sea gas producer.'

Based on conservative price forecasts for 2022, FinnCap's earnings and cash flow estimates put IOG on a price to earnings ratio of a smidge over three times and a free cash flow yield of nearly 34%. This ample cash flow can be recycled into further development of the assets.

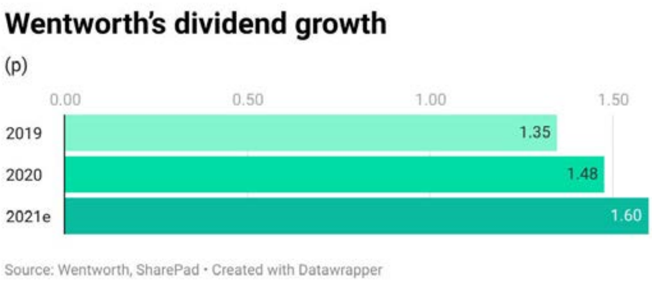
A GLOBAL GAS PLAY

Energy shortages and mounting prices are a global rather than UK-only issue. While blackouts might be a nightmare scenario in Britain, for other parts of the world they are a regular challenge.

A company at the forefront of meeting this challenge is **Wentworth Resources (WEN:AIM)**, which owns a material interest in producing assets in Tanzania.

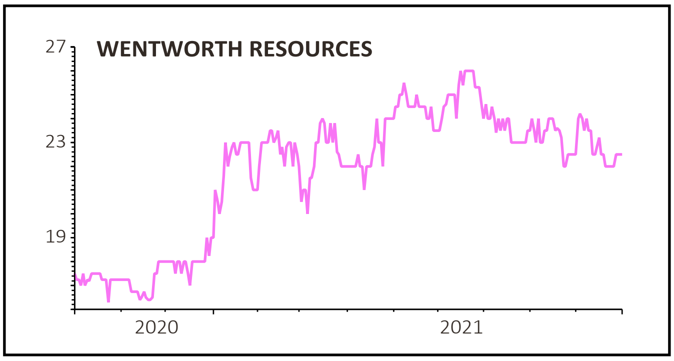
While relatively small and therefore higher up the risk spectrum, we think Wentworth looks attractive on the basis of its stable production and income attractions.

It holds a 31.95% holding in the low-cost onshore Mnazi Bay gas field in Tanzania. Having achieved first gas in 2015, the company unveiled a maiden dividend in 2019.



Based on consensus data from SharePad, Wentworth offers a 2021 yield of 7%. The company achieved record output in the first six months of 2021 and managed to reduce production costs by 72% year-on-year.

This left the company in an enviable financial position with cash of $21 million as of 2 September 2021 and no debt.



As well as enabling Wentworth to fund generous returns to shareholders, it also gives the company the flexibility to go after acquisitions with chief executive Katherine Roe recently telling *Shares* the current focus would remain on Tanzania in the hunt for assets to acquire.

The main downside to the investment case is the current focus on a single asset in a single country which means the business could suffer if there is a change in Tanzania's fiscal terms, for example, or suffers a major production outage. However, the track record it has established over the last six years helps to mitigate this risk.

PLAYING THE ENERGY MARKETS THROUGH FUNDS

An alternative for investors wary of taking on the risks associated with investing in individual oil and gas firms is to buy a fund which offers exposure to these markets. One option is **Guinness Global Energy (B6XV001)**.

Managed by a highly experienced team who have run portfolios in the energy market since the late 1990s, the fund is up 42% year-to-date but on an annualised basis has delivered a return of -0.38% over 10 years which reflects the volatile nature of the markets it is exposed to.

It has a concentrated portfolio of around 30 stocks which includes high profile firms like Chevron, ExxonMobil, BP and Shell alongside lesser-known names such as Canadian pipeline operator Enbridge, the top holding at 4.7% of the fund. It has an ongoing charge of 0.99%.

Investment trust **BlackRock Energy and Resources Income (BERI)**, which also has exposure to the mining sector, has a better 10-year track record with annualised returns of 4.9% but is also more expensive with an ongoing charge of 1.57%.

Low-cost exposure to commodity prices is available through exchange-traded products such as **WisdomTree Natural Gas (NGSP)**. However, it is worth remembering that if you hold these for the long term your returns are affected by the vagaries of the futures market.

Most commodities are traded in futures contracts. This is the purchase or sale of a commodity agreed at a fixed price for delivery on a specified date – typically either one, three or six months ahead.

This facilitates the buying and selling of the respective commodity without anyone having to take physical delivery of a barrel of oil, for example.

Typically, oil and natural gas trade in a state of contango – a market condition where the price of a futures contract (delivery in the future on a specific date) is above the spot price (the price for immediate delivery).

When contracts are rolled over to avoid taking delivery of the physical asset, contango sees returns diminished.

The impact of contango is more acute for investors in exchange-traded products because the providers of these vehicles do not pay a premium every month to cover the cost of the 'roll' and maintain the same position.

In effect the instrument is giving up a proportion of its position to cover the cost of the roll-over. **iShares Bloomberg Roll Select Commodity Swap (ROLL)** is a broad-based commodity product which aims to mitigate this impact. It has an ongoing charge of 0.28%.

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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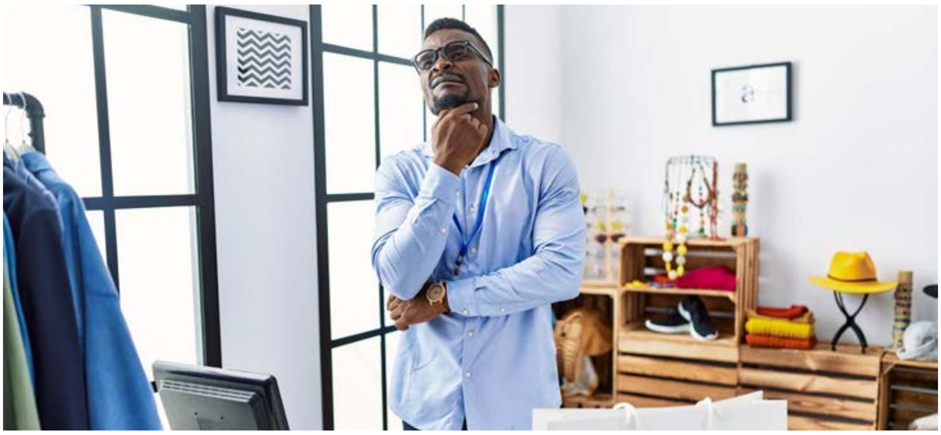
Does it matter who owns the investment trust I want to buy?

We explain how to find a list of major shareholders and what to consider

I look at lots of different factors when I'm researching investment trusts and one that I've spotted recently is the percentage of the trust that's owned by institutional investors. Does this hold any relevance?

For example, if one trust had 20% held by an institutional investor and another had 80%, which would be the better investment, assuming all other factors are equal? Or is this something I don't need to factor in?

JH, via email



There's lots of information available on investments, which can make it a bit overwhelming when doing your homework on opportunities. You're smart to try to work out what information is useful to have and what's just noise that won't help when you're weighing up investments.

Investment trusts have a lot of data available on them, and you can use websites such as Quoted Data, Trustintelligence, Shares and the AIC to get more facts and figures.

Once you've got the basics sorted, such as the investment remit, performance, charges, the current discount, the level of gearing, etc, it can be useful to look deeper into the data to see if it will give you an edge when deciding between trusts.

One of the data points available is the makeup of the shareholders of the trust, listed on the shareholder register. This will show how much of the trust is owned by individual investors and how much is owned by large investors, such as pension funds, professional fund managers or insurance companies. Morningstar has this figure available for each trust on the relevant factsheet.

For example, five of the top 10 investors in **Murray International (MYI)** are wealth managers who will have put money in the investment trust on behalf of their clients, namely Rathbone, Charles Stanley, Investec Wealth, Smith & Williamson and JM Finn.

MAJOR SHAREHOLDERS IN MURRAY INTERNATIONAL

SHAREHOLDER	HOLDING
Rathbone Investment Management	11.0%
Hargreaves Lansdown	8.8%
Aberdeen Asset Investments	7.9%
Charles Stanley	5.4%
Investec Wealth	4.5%
Smith & Williamson Investment Management	4.0%
BlackRock Investment Management	0.6%
JM Finn	0.6%
HSBC Global Asset Management	0.5%
Vanguard	0.5%

Source: Refinitiv, 29 September 2021

It is common to see investment platforms such as AJ Bell feature as a large shareholder in investment trusts. In the example of Murray International, investment platform Hargreaves Lansdown is the second biggest shareholder at 8.8% of the trust.

In these situations, the investment platform will represent lots of underlying DIY investors. When you buy a share via a nominee account, your investment platform is named on the shareholder register and not you.

DIVERSIFICATION BENEFITS

Ryan Hughes, head of investment research at AJ Bell, says that it can be useful to look at the makeup of the shareholder base of a trust: 'My personal view is that the more diversified the shareholder base, the better.'

He says one warning sign might be if one shareholder holds most of the shares, or at least a large proportion. 'There is an increased risk that they could seriously disturb the share price if they chose to sell, or they could agitate for change if things are not going as they would like.'

But even if there isn't one dominant shareholder, another warning sign could be the entire trust being owned by just a handful of shareholders, which could present the same risks.

Hughes touches on a key risk if there's one large shareholder: liquidity. It means there won't be many shares available to buy freely in the market, which could affect the price. But likewise, if that one shareholder decided to sell their entire stake (or a large proportion of it), that could dramatically affect the price of

the trust.

Annabel Brodie-Smith, communications director of the Association of Investment Companies, says: 'In practice, this doesn't happen very often. Most institutional investors are conscious of the impact their trading can make on share prices and will often space their trading out to minimise its impact.'

VOTING POWERS

The second big area is the ability for institutional investors to vote for change. This could work in your favour if the institutional shareholder if pushing for change that's aligned with your views.

Bigger shareholders stand a better chance of bringing about change as they have a large voting share. But this can be both a pro and a con, as if the institutional investor is pushing for something you're not aligned with, it can easily vote you out.

'There are times when an institutional investor's goals could be different to those of private investors, for example if institutional investors wanted an investment company to wind up, but private investors wanted it to continue,' says Brodie-Smith.

'This is one of the reasons why it's important for private investors to vote their shares. Institutional investors will almost always vote, so it's important private investors do so as well to make sure their views are heard.'

DISCLAIMER: AJ Bell referenced in this feature is the owner of Shares magazine. Editor Daniel Coatsworth owns shares in AJ Bell

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

HAVE YOU READ OUR RECENT FEATURES ON INVESTMENT TRUSTS?

Standard Life UK Property Income: the 5% yielding trust trading 17% below the value of its underlying assets

Investment trusts trading on wider discounts than their 12-month average (and ones on bigger premiums)

Why investment trust dividends have been more resilient than headlines suggest

In with the new

Identifying the "next big thing" in micro-cap investing is a challenge for private investors. Fortunately, the expert teams behind trusts such as Downing Strategic Micro-Cap are able to sift through the field to select the best new opportunities on the market...

Some of the most interesting opportunities available in stock markets can be found amongst the smallest listed companies. Even Google started somewhere, and among these companies are likely to be some of the bigger companies of the future, operating in niches and technologies that are primed for growth.

Meanwhile, from an investment perspective, their newness, nicheness and nimbleness often means that valuing them is a challenge and the market is often guilty of dramatically undervaluing them, given their significant potential.

However, because these companies are so small, it can also be hard for private investors to take advantage of the opportunity presented by this mispricing. Both from an informational standpoint – these companies only produce the minimum disclosures necessary and often have few comparators – and from the point of liquidity, where limited knowledge of these companies creates a small market for their shares.

SMALL COMPANIES, BIG OPPORTUNITIES

Downing Strategic Micro-Cap (DSM) offers investors a route to the opportunities in the smallest listed companies, participation in which is often illiquid making the investment trust structure an excellent means to get the best from them. The trust focuses on just 12 companies that its management team, led by Judith MacKenzie and Nick Hawthorn, believe have the greatest potential for a pricing uptick.

This concentration enables the managers to take meaningful positions in these companies, from around 3% upwards, which in turn means that they have the clout to engage with management and help companies implement the changes needed to grow, if required.

PROOF IN THE PUDDING

The newest investee company within the portfolio is Tactus Group Holdings. The company, headquartered in Warrington, supplies consumer technology, including own and third-party hardware such as basic laptops, sophisticated gaming computers and accessories to go alongside these.

Tactus is an unusual investment for DSM as it is not yet listed. However, the managers have the ability to invest up to 10% of the trust in unquoted companies, providing these are of exceptional quality. The managers believe that Tactus' combination of a proven ability to create successful brands, alongside its track record of sensible acquisitive activity, put it in the exceptional category, and so they invested in May 2021.

The strength of Tactus was demonstrated in August when FTSE 250-listed technology investor Chrysalis Investments participated in a £40m funding round, partly facilitated by DSM exiting half of its investment. This partial exit coupled with a revaluation of the remaining equity prompted a £1.07m valuation uplift for DSM. Crucially, investors would need to pay a 15% premium to access Tactus through an investment in Chrysalis – while DSM offers exposure to the company at a c. 13% discount.

A FLUID PATH TO GROWTH?

Another of DSM's newer investments, Flowtech Fluidpower, tick a number of the managers' criteria for value creation – there is a clear self-help opportunity, alongside scope to de-leverage and improve structurally, with the subsequent growth of end-markets expected to follow from that process.

Flowtech is a cyclical distributor of hydraulic and pneumatic fluid-power parts and as a result was heavily affected by COVID lockdowns, as industries that use these components slowed production in the face of widespread economic uncertainty.

DSM used this opportunity to introduce the company to the portfolio at an especially attractive price. Shortly afterwards, a change in the board and a re-focused strategy have driven improvements to both costs and working capital efficiency.

Alongside these internal improvements, there are several structural drivers supporting higher revenues over the medium term and the business ought to continue taking market share across the UK. DSM's managers continue to think that Flowtech is relatively underappreciated in the market and that there are several catalysts to see significant growth in the future.

Click **here** to read our detailed fund research on Downing Strategic Micro-Cap

City of London underperformance is a worry

The popular investment vehicle has lost its edge in recent years

City of London Investment Trust (CTY) has been a popular choice for investors over the years, but a period of underperformance versus the UK Equity Income investment trust sector average on a three and five-year basis is a worry.

Typically investing in FTSE 100 companies, City of London has been a hit with certain types of investors, particularly those approaching retirement or already in it. The trust has a conservative investment approach and has raised dividends every year for the past 55 years. Its charges are also very low at 0.38%.

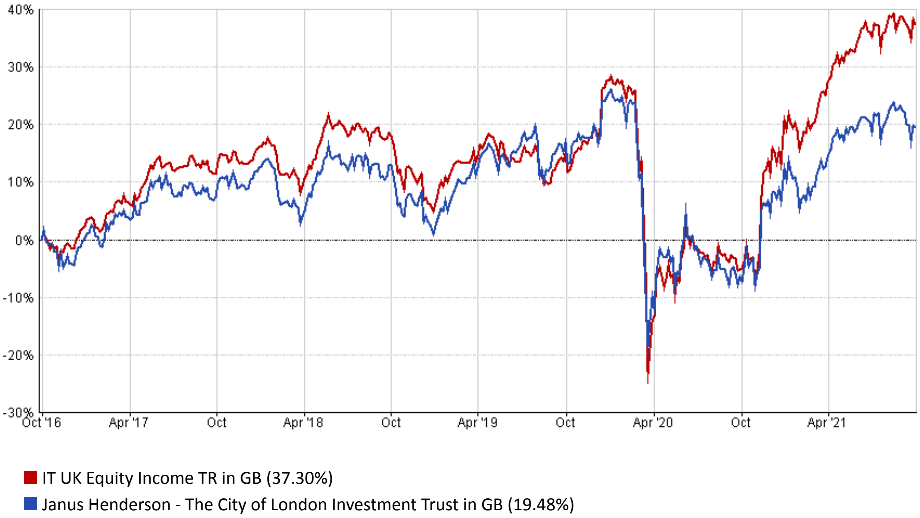
According to FE Fundinfo data, City of London has generated a near-20% total return over the past five years, which factors in share price gains and dividends.

In comparison, the FTSE All-Share index has returned nearly 30% over the same period. The UK Equity Income investment trust sector has returned 37% in this timeframe, suggesting that income investors might have better options elsewhere.

To illustrate this point, *Shares* has published the list of top performing investment trusts in this category. The top position on a five-year basis is held by **Law Debenture (LWDB)** with an 82% return, followed by **Dunedin Income Growth (DIG)** in second place with a return of 68%.

City of London attributes its lagging performance over periods up to five years as a reflection of how higher yield value shares have underperformed. It has various holdings that fit the high yield value description including stocks in the tobacco sector.

Over 10 years the investment trust has outperformed the broader UK market; data from FE Fundinfo shows the trust returning 128% versus 119% from the FTSE All-Share. However, that is still less than the 146% from the UK Equity Income investment trust sector over the same timeframe.



Source: FE fundinfo. 1 Oct 2021, total return

BEST PERFORMING UK EQUITY INCOME INVESTMENT TRUSTS

	1 year	3 years	5 years	10 years
Law Debenture	57%	42%	82%	214%
Dunedin Income Growth	39%	47%	68%	160%
Merchants Trust	70%	27%	68%	157%
JPMorgan Claverhouse	47%	12%	57%	200%
Shires Income	33%	25%	53%	162%
The Diverse Income Trust	43%	22%	51%	246%
Murray Income Trust	25%	30%	50%	133%
Schroder Income Growth	35%	20%	47%	154%
Finsbury Growth & Income	6%	14%	47%	248%
Chelverton UK Dividend Trust	112%	29%	44%	318%
How does that compare to City of London?				
City of London Investment Trust	29%	6%	20%	128%

Table: Shares magazine. Source: FE Fundinfo, 1 Oct 2021. Total return

CITY OF LONDON VERSUS ITS SECTOR AND UK MARKET

	1 year	3 years	5 years	10 years
City of London Investment Trust	29%	6%	20%	128%
FTSE All Share	28%	10%	30%	119%
IT UK Equity Income sector	45%	16%	37%	146%

Table: Shares magazine. Source: FE Fundinfo, 1 Oct 2021. Total return

INVESTMENT STRATEGY

City of London aims to buy into companies with prospects of long-term growth in profits and dividends at a reasonable valuation. It then sells when the shares become overvalued.

Fund manager Job Curtis prefers companies with good cash generation. This serves two functions. First, it provides money to spend on the business that is critical to facilitating growth. Second, it supports dividend payments. Curtis also favours companies with strong balance sheets.

Curtis has added to his position in utility company **SSE (SSE)**, which he believes is the leading renewable company in the UK. He is confident the group will benefit from increasing opportunities from ESG, which covers environmental, social and governance matters.

The financial sector is another area where Curtis has been adding to positions. 'UK financials look very poorly rated compared to some of the overseas areas. This was highlighted by the bid for RSA,' he comments. He has added to his positions in **M&G (MNG)**, **Direct Line (DLG)**, **Legal & General (LGEN)** and **IG Group (IGG)**.

BACKING TOBACCO

Curtis has warmed to the tobacco sector, with **British American Tobacco (BATS)** the largest holding in his portfolio. His enthusiasm for the sector is predicated on their renewed focus on next generation products and their ability to generate prodigious amounts of cash.

'Tobacco stocks have gone back to having the pariah status that I witnessed at the beginning of my career,' he says.

The market's scepticism towards British American Tobacco has left the shares

CITY OF LONDON: TOP 10 HOLDINGS

British American Tobacco	3.7%
Diageo	3.7%
RELX	3.0%
Unilever	2.6%
Rio Tinto	2.6%
Royal Dutch Shell	2.6%
BAE Systems	2.5%
M&G	2.3%
Phoenix	2.3%
SSE	2.0%

Source: Janus Henderson, as of 31 August 2021 trading at an attractive valuation, in the fund manager's eyes. 'It is yielding 8%, has a free cash flow yield of 14%, it is rapidly deleveraging and will be down to three times net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) this year.'

Getting debt under control may prompt British American Tobacco to undertake a share buyback, which according to Curtis may provide a catalyst for a re-rating of the shares.

CONSUMER APPEAL

Curtis favours the consumer staples sector which is a core part of his portfolio. 'The sector is global and provides exposure to emerging market growth,' he comments.

The fund manager has been particularly impressed by **Diageo's (DGE)** success in America where its Casamigos tequila brand acquired in 2017 has experienced phenomenal growth by leveraging the group's extensive distribution network.

IN AND OUT

Curtis added three new holdings to the portfolio in the past financial year. These were American network provider Cisco Systems, UK specialist Lloyd's of London insurer **Beazley (BEZ)** and **Synthomer (SYNT)**, the specialist chemical maker of nitrile used in the manufacture of rubber gloves.

Recent disposals on valuation grounds include **Halma (HLMA)**, **Renishaw (RSW)** and **Spirax-Sarco (SPX)**, all positions that Curtis established over 10 years ago and which have made the trust 10 times the money invested.

Positions in **Greggs (GRG)**, **National Express (NEX)**, **Ten Entertainment Group (TEG)**, **ITV (ITV)** and **Carnival (CCL)** were all sold on the basis that their strong share price recovery at the time of disposal was ahead of dividend prospects.

SUCCESSION PLANNING

Curtis is 60 years old and succession planning appears to be in motion. David Smith has been appointed as deputy fund manager on City of London, having worked alongside Curtis at asset manager Janus Henderson for the past nine years as part of the global equity income team.

Smith has managed **Henderson High Income Trust (HHI)** since 2013 and has helped on **Bankers Investment Trust (BNKR)** with UK stock selection since 2017.

City of London needs to find its mojo again if investors are to stick with it. JPMorgan is concerned that underperformance relative to the market and its peers could lead a de-rating of the trust's shares, which currently trade on 1% premium to net asset value.

However, it notes that the trust has a desire for its shares to stay close to net asset value, implying that it could buy back shares if the stock did move to a discount.

One thing that's clear is plenty of options exist in the equity income space and City of London shareholders might look elsewhere if they aren't getting the added value that comes with paying an active manager. The trust does have a good longer-term track record and it would be nice to see it return to form.

By **Mark Gardner**
Senior Reporter

Insightful commentary on market issues

RUSS MOULD
AJ Bell Investment Director

Why the dollar must be watched

The US currency has a big impact on commodities and emerging markets

The International Monetary Fund's quarterly *Composition of Official Foreign Exchange Reserves* report may not be everyone's idea of bedtime reading but one trend immediately emerges from the latest data. The dollar is still – slowly – falling from favour as the globe's reserve currency with non-US central banks.

As of June 2021, the dollar represented 59% of global exchange reserves, only a fraction above December's 25-year low and way down from this century's 73% peak, reached in 2001.

The creation of the euro may have something to do with this and the rise of the Chinese renminbi may be another, while the US may not have helped its cause with rampant deficit creation and money printing since 2009 (even if it is not on its own in either respect).

This has perhaps tempted some central banks to sell dollars in exchange for something else (gold or other currencies), because the greenback trades well below its early-century highs, as measured by the trade-weighted DXY index. The so-called 'Dixie' benchmark currently stands at 94 compare to its 2002 peak (for this century) of 120.2.

This may feed into the 'demise of the dollar' narrative that is popular with some economists and investors (even if that neglects the lack of credible alternatives, especially as the Chinese renminbi still represents just 2.6% of global foreign reserves). Yet for all of that, the DXY index trades at its highest mark for 2021 and all market participants, not just currency traders, will know that attention must be paid when the US currency starts to make a move, up or down.

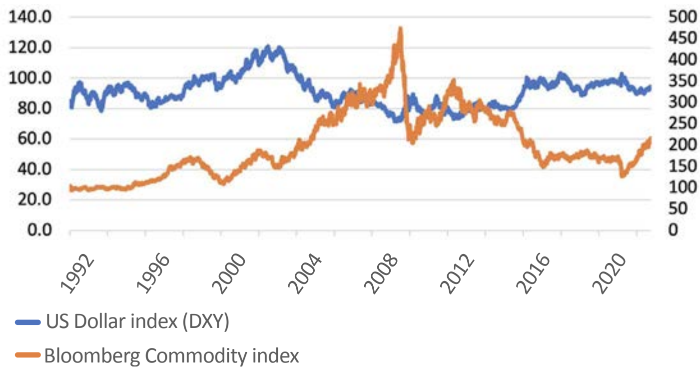
DOLLAR DYNAMIC

Two asset classes are particular sensitive to the dollar, at least if history is any guide.

The first is commodities. All major raw materials, except cocoa (which is traded in sterling) are priced in dollars. If the US currency rises then that makes them more expensive to buy for those nations whose currency is not the dollar or is not pegged to it and that can dampen demand, or so the theory goes.

While the past is by no means a guarantee for the future, it can be argued that there is an inverse relationship between 'Dixie' and the Bloomberg Commodity Price index.

Dollar is traditionally seen as negative for commodity prices



Source: Refinitiv data

The second is emerging equity markets. They do not appear to welcome a strong dollar either, judging by the inverse relationship which seems to exist between the DXY and MSCI Emerging Markets benchmarks. Dollar strength at the very least coincided with major swoons in EM, or at least periods of marked underperformance relative to developed markets, during 1995-2000 and 2012-15. Retreats in the greenback, by contrast, appeared to give impetus to emerging equity arenas in 2003-07, 2009-12 and 2017-18.

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Emerging markets can also be sensitive to big moves in the dollar

Source: Refinitiv data

This also makes sense, in that many emerging (and frontier) nations borrow in dollars and weakness in their currency relative to the American one makes it more expensive to pay the coupons and eventually repay the original loans.

Sovereign defaults are thankfully few and far between in 2021 – Suriname and Belize are the only ones that spring to mind – but a rising dollar could put more pressure on potential strugglers whose credit ratings continue to slip, notably Tunisia.

BOUNCY BUCK

But before investors jump on the dollar bandwagon – and to conclusions – it must be worth asking why the US currency is back on a roll, and there are a couple of possibilities here.

The first is risk aversion. It may seem strange to say this as so many equity markets trade at or near all-time highs and so many sub-classes of the bond market offer record-low yields, but it may not be entirely a coincidence that the S&P 500 index has just served up its weakest month since the outbreak of the pandemic.

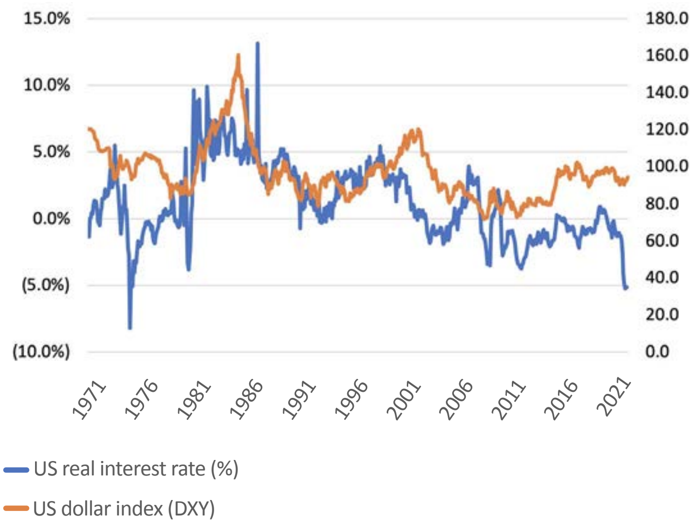
China's regulatory crackdown, and signs of an accompanying economic slowdown, may be tempting some investors to seek out a haven asset and the dollar, as the globe's reserve currency, still fits that bill.

The good news here is that the DXY index is nowhere its all-time high of 160 in the mid-1980s (a situation that was only resolved by 1985's Plaza Accord, when the G5 unilaterally revalued the deutschmark, as they were then, against the US currency), let alone that 120 peak of 2002, but substantial further dollar gains could be a warning of a market dislocation of some kind.

The second is US monetary policy. Whether you believe it or not, the US Federal Reserve is again discussing the prospect of tapering quantitative easing and raising interest rates in either 2022 or 2023.

Real US interest rates, adjusting for inflation, are as deeply in negative territory now as they have been for 50 years, thanks to record-low interest rates and a 5.2% inflation reading. History suggests a move upward, either due to lower inflation, higher borrowing costs or both, could boost the buck.

Real US interest rates are near record lows



Source: Refinitiv data

Yet the sensitivity of the emerging markets and commodity prices to sharp moves in the dollar suggests the Fed will have to move carefully, as the US central bank will not wish to cause – or be blamed – for the sort of upset which is now known as 2013's taper tantrum. If monetary policy does become less loose, it seems sensible to expect higher volatility at the very least.

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Why is it costing me to leave a with-profits pension?

Watch out for something called 'Market Value Reduction'

I was sold a pension policy by one of the big insurers in the late 1990s which was half unit-linked, half with-profits. Since 1999 they have applied a so-called 'MVR' to the with-profits portion which means it will cost me 10-15% of the fund to move to a SIPP. How can this possibly be fair?
Graham

Tom Selby
AJ Bell Head of Retirement Policy says:

If you have a with-profits pension, your contributions will be invested with those of other members into a collective pot.

With-profits pensions will usually offer to pay annual and terminal bonuses – the former each year, the latter at the end of your policy term. These bonuses will be a percentage of the value of your fund. The aim is to smooth out investment performance, so you are less directly exposed to rises and falls in the value of their investments over the shorter term.

A unit-linked pension is one where the underlying fund is divided into units of equal value. The value, or price, of each unit will depend on the value of the assets in the fund.

The unit price determines the number of units you receive when you invest money in the fund, and the amount you receive when you sell your units.

A Market Value Reduction or 'MVR' is sometimes applied when a with-profits investor chooses to transfer their pot to a new provider before the end of their policy term. The purpose of an MVR is to ensure fairness across members.

For example, suppose there are three investors in a with-profits fund whose policies are worth £100,000, meaning the total value of the fund is £300,000.

If the fund dips in value by 10%, for example because of a market shock, and one investor chooses to take their policy without an MVR being applied, only £170,000 would be left between the two remaining investors (i.e £85,000 each).

In these circumstances, the provider may apply a 10% MVR on the transferring investor in order to ensure all members receive fair value (i.e. £90,000 each).

Unfortunately, this appears to be the situation you have found yourself in – and you are certainly not alone.

Lots of people who were sold with-profits policies in the 1990s have seen their investments perform poorly, meaning large MVRs can be applied to those transferring out.

While I sympathise with your view this feels unfair, the key question is whether or not the policy clearly set out that an MVR could apply in these circumstances.

If you feel this was not properly explained to you – or not properly spelled out in the scheme documentation – you can complain to your pension provider. If this complaint is rejected, you can go to the Financial Ombudsman Service for an independent adjudication.

You can find more information on how to make a complaint to the FOS here: How to complain.

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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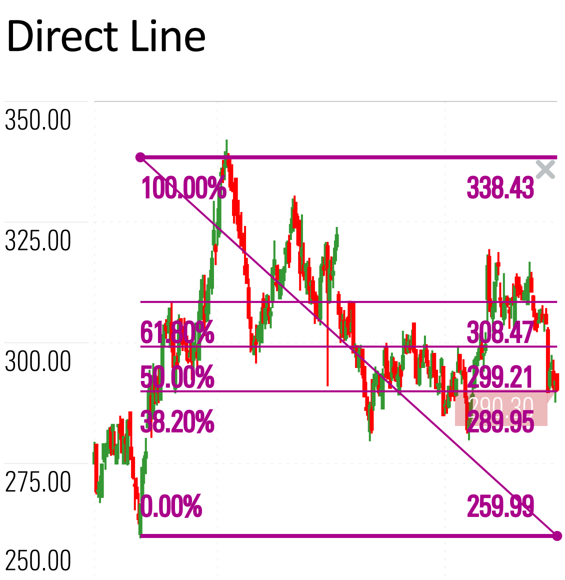
Charting: How a classic mathematical series can help set price targets

Fibonacci levels are a useful guide to future support and resistance



The Fibonacci sequence, named after an Italian scholar of the same name, is a simple mathematical series where each number is the sum of the two preceding numbers. It starts as follows:

0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89

The sequence is sometimes called 'nature's code' because the numbers recur repeatedly in the natural world. An apple always has five pips, arranged like a star, and flowers always have three, five, eight, 13 or 21 petals.

Similarly, rows of seeds in sunflowers or pinecones always add up to Fibonacci numbers, because it is the most efficient way to pack lots of seeds into a small space.

Curiously, excluding the numbers zero, one, two and three, if you divide any Fibonacci number by the number after it, you get a similar answer: roughly 0.62 or 62%. The Greeks called this number Phi, representing physical perfection, and it has since become known as 'the golden ratio'.

At the same time, if you divide any number greater than three by the second number that follows it, the results are around 0.38 or 38%.

Applying Fibonacci numbers to share trading produces horizontal lines on a chart which can indicate support and resistance levels for a share price. The main Fibonacci 'retracement levels' are 23.6%, 38.2%, 50%, 61.8% and 78.6%.

This article uses the example of insurance firm **Direct Line (DLG)**. Having loaded the chart on *Shares'* website, go to the Settings cog, select Drawings and then Fibonacci Retracement Levels.

Point the cursor at the October/November 2020 low in the share price (around 262p), hold down and move the cursor to the peak in the share price in January 2021 (around 340p), and release.

This should produce a series of purple lines across the chart showing support and resistance levels for the share price. Interestingly, the first drop in the price to around 300p knocks off roughly 40p or half of the price rise from the October/November low, consistent with the 50% retracement level.

Subsequently, both the 38.2%, 50% and 61.8% Fibonacci levels have provided alternately support and resistance levels for the share price.

It is important not to anchor your expectations on these levels as prices can and often do overshoot and undershoot them, but they can provide a rough guide to future support and resistance levels which can be useful for investors seeking clues as to the direction of share prices.

By **Ian Conway** Senior Reporter

INDEX

Main Market	
AO World	6
Aston Martin Lagonda	25
Aviva	25
Babcock	6
Beazley	39
BHP	18
BP	28
British American Tobacco	7, 38
Carnival	39
Clipper Logistics	12
Curzon Energy	29
Diageo	19, 39
Direct Line	46
Euromoney Institutional Investor	14
Future	12
Games Workshop	6
Greggs	9, 39
Halma	39
Harbour Energy	30
IG Group	38
ITV	39
Legal & General	38
Liontrust	12
M&G	38
Marks & Spencer	6

National Express	39
Next	8
Ocado	18
Persimmon	7
Prudential	25
Reach	12
Renishaw	6, 39
Royal Dutch Shell	6, 28
Serco	12
Severn Trent	25
Spirax-Sarco	39
Synthomer	39
Ten Entertainment	39

AIM	
ASOS	8
Boohoo	8

Clinigen	12
CVS	12
Dotdigital	12
Hotel Chocolat	16

Hutchmed	12
Inspecs	18
IOG	30
Kape Technologies	12
Quiz	8
RWS	19
Serica Energy	29
Tracsis	17
Wentworth Resources	31

Overseas shares	
Alibaba	18
BioNTech	7
Cisco Systems	39
Eurofins Scientific	17
Merck	7
Moderna	7

Investment Trusts	
Aurora Investment Trust	16
Bankers Investment Trust	39
BlackRock Energy and Resources Income	32
Capital Gearing Trust	5
City of London Investment Trust	37
Dunedin Income Growth	37
Henderson High Income Trust	39
Law Debenture	37
Murray International	34

ETFs	
iShares Bloomberg Roll Select Commodity Swap	32
WisdowTree Natural Gas	32

Funds	
Fundsmith Equity Fund	5
Guinness Global Energy	32
Slater Growth Fund	11

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

2 Oct: DX, Maestrano, YouGov. **13 Oct:** Applied Graphene Materials.

Half-year results

13 Oct: Angling Direct, Sanderson Design.

Trading updates

11 Oct: XP Power. **13 Oct:** Marston's. **14 Oct:** Dunelm, Hays, Norcros.

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