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AIC Global Emerging Markets Sector	+26.0	-7.0	+10.8	-10.8	+12.0

Source: Financial Express Analytics

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What conclusions can we draw from the THG disaster

Lessons from a car crash investor event

It's hard to think of a more disastrous investor event than **THG's (THG)** capital markets day (12 Oct).

This was supposed to be an opportunity to reignite excitement around the company's Ingenuity e-commerce platform but it backfired spectacularly, prompting a 35% intra-day plunge in the shares.

On the face of it, Ingenuity is a relatively simple concept often compared with online groceries play **Ocado's (OCDO)** out-of-the-box solution for global supermarkets.

Effectively THG sells its internet retail expertise as a service, covering everything from getting websites up and running to on-the-ground logistics, an area which looked to have big potential as the pandemic accelerated growth in web-based sales.

THG owns and operates several sites of its own selling nutrition and beauty products.

However, to quote Numis analyst Simon Barker, the Ingenuity platform 'feels increasingly nascent, opaque and lacking sufficient proof points to justify a significant valuation'.

Investors seem to be coming to this view and little value of any description is now being ascribed to Ingenuity. There is also concern that Japanese investor Softbank may cool on its option to invest in the platform. This option to take a 19.9% stake, agreed in May, had helped underpin assumptions on the valuation.

Ingenuity was always a jam-tomorrow story. In the six months to 30 June, Ingenuity generated revenue of just £85.8 million, although there was no earnings contribution which in itself is probably part of the problem. Also, the one real blue chip client for the platform is/was Nestle raising fears of over-reliance on the Swiss consumer goods giant.

Now the market is waking up to the possibility that the promised jam may never arrive. Recent

events offer some vindication for *Shares* own caution on THG when we noted shortly after IPO: 'At best we believe investors should demand more evidence of consistent execution as a public company before considering an investment in the shares.'

Our reservations didn't look so smart when the company reached a peak above 800p, 60% above the issue price from its September 2020 placing. However, it would have required agility to lock in those gains which have now been wiped out and then some, with the shares substantially below their initial price.

Founder Matthew Moulding's decision to give up his 'golden share' to pave the way for a quicker move into the FTSE indices is repairing a little of the damage. But, in its diminished state THG would no longer be a candidate for the FTSE 100.

Next week's third-quarter trading update (26 Oct) could be key in the short term to what may be the slow and painful process of rebuilding sentiment.

The lesson here is, it is fine to buy stocks which are at the foothills of what could be a major opportunity - after all Amazon didn't make a profit for the best part of a decade - but you need to understand the major risks involved, have high conviction about what you are investing in, and you need to be patient.

As we discussed in [last week's issue](#) it might be better to look at a large, well-established retail business like **Next (NXT)** which is incubating an e-commerce platform business of its own and where it is the cherry on top of the cake, rather than THG where it is integral to the whole investment case.



By Tom Sieber Deputy Editor

China could export inflation to the rest of the world



Higher producer prices could spell rate rises sooner than investors expect

After a couple of weeks of healthy gains, the global emerging markets index took a step back on 18 October after the latest Chinese economic data disappointed on two fronts.

On the one hand, growth in the quarter to September was weaker than expected, while on the other industrial prices were stronger than expected raising fears China could be set to 'export' inflation to the rest of the world.

Given its role as a manufacturing hub for global companies, including many in the UK, there is a danger higher output prices for goods made in China will feed through to producer and consumer prices around the world, which could ultimately lead to more pressure on central banks to raise interest rates sooner than anticipated.

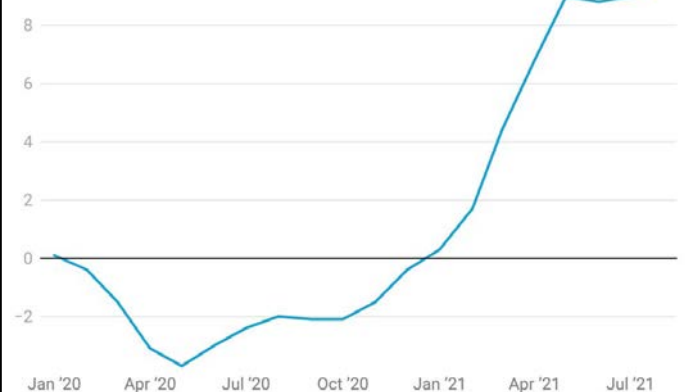
Chinese GDP grew by just 4.9% in the last quarter, well below analysts' forecasts and the weakest rate since the same quarter of 2020 as the economy faced power shortages, supply chain issues, virus outbreaks and a drop in property investment due to government restrictions after Evergrande's debt crisis.

Observers are now worried fourth quarter growth could be even weaker as Chinese industry struggles to deal with soaring power prices.

However, as UBS chief economist Paul Donovan points out, there are a lot of country-specific factors involved such as flooding, which impacted power production, the government's zero tolerance policy toward Covid-19 and the impact of higher energy prices 'in an economy that is an inefficient energy consumer'.

Therefore, says Donovan, 'there is no automatic global read-through from China's position', although luxury stocks including **Burberry (BRBY)** were marked down, as often happens when growth disappoints in the world's

China 'Factory Gate' prices



Source: Refinitiv • Created with Datawrapper

second-biggest economy.

Of more concern for global markets is was the sharp spike in Chinese 'factory gate' or producer prices, which last month rose at their fastest pace in more than a quarter of century as manufacturers passed on soaring energy prices.

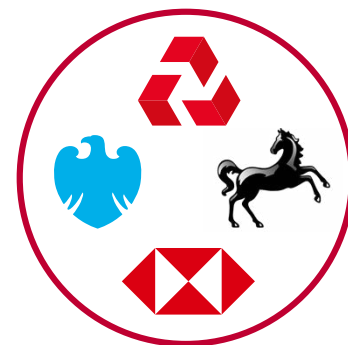
The producer price index rose 10.7% in September, its highest rate of annual growth since 1995, sharply ahead of forecasts and August's 9.5% increase.

On top of strong demand driven by the economic recovery, energy prices have been driven higher as crude oil processing at refineries fell to its lowest level since May 2020 last month due to a shortage of feedstock and tougher inspections.

Ironically, government-mandated carbon emission cuts have increased the cost of producing 'clean' power which in turn has pushed up the price of dirty fuels.

Chinese coal prices hit a new all-time high this month, creating further headaches for manufacturers and policy makers. [IC]

What to expect in the latest updates from UK banks



Can British lenders match the strong showing from their US counterparts?

Investors have just witnessed five of America's largest lenders J.P. Morgan, Bank of America, Citigroup, Morgan Stanley and Wells Fargo beat quarterly earnings expectations.

Investors' attention will now turn to the UK banks sector ahead of next week's third quarter earnings updates. Three key issues are likely to dominate.

First, Andrew Bailey, governor of the Bank of England, has warned that it will have to act over rising inflationary pressures. This suggests that UK interest rates could rise soon.

An increase in interest rates would have significant implications for the profitability of the UK banks sector. Second, the central bank has now removed all restrictions on bank dividends and share buy-backs.

This has raised the possibility of more progressive dividend policies as we move into 2022. Third, investors will be looking for updates regarding the move of both **HSBC (HSBA)** and **Lloyds (LLOY)** into the wealth management segment.

The market is now expecting an interest rate rise by Christmas. This is primarily the result of pervasive inflationary pressures impacting wages, fuel and food.

Higher interest rates are positive for banks because it should enable them to charge higher rates of interest for lending (although it could also lead to increased risks of bad debt).

A resulting boost to in sector net interest margins (a key measure of profitability) could act as a catalyst for share prices.

In July the Prudential Regulation Authority, the Bank of England arm that oversees banks' capital management reversed its restrictions on bank dividends and share buy-backs. This has raised the prospect of the UK banks sector adopting a

Banks' profitability

Company	Net interest margin
Barclays	2.93
HSBC	1.21
Lloyds	2.50
NatWest	1.61

Source: Company reports • Created with Datawrapper



more progressive dividend policy going into 2022. This is significant because the UK banks sector has historically been a key source of yield for income investors.

Lloyds recently announced the £390 million acquisition of wealth manager Embark which augments its position within the asset management segment. Embark is a fast growing investment and retirement platform business. HSBC is following a similar strategy to Lloyds and intends to become the leading wealth manager in Asia over the next five years.

The market will be looking for progress in both HSBC and Lloyds' expansion into the wealth management industry in their forthcoming updates. Investors will also be monitoring Lloyds move into the corporate landlord market where the bank has scale, an enviable vantage point and cross-selling opportunities. [MGar]

Life sciences property firm to break new ground

New asset class is likely to attract widespread interest

A specialist new real estate investment trust is coming to the AIM market with a focus on UK life science properties in key innovation centres such as the university towns of Oxford and Cambridge and the St Pancras area of central London.

Life Science REIT is looking to raise £300 million to target property assets in what is known as the 'Golden Triangle', including laboratories, offices and co-working space, manufacturing and testing facilities and data centres, which should provide 'strong potential for rental growth over the coming years'.

The trust has already identified £445 million of potential income-generating assets of which just over £300 million are already in exclusive talks or



at an advanced stage of negotiation.

It is targeting a net asset value total return of more than 10% per year and an initial dividend yield of 4%, with the intention to increase the payout to 5% in the first couple of years. Leverage will be conservative, with a target loan to value ratio of between 30% and 40%.

Ironstone Asset Management, led by Simon Farnsworth, will advise the trust. With its first-mover advantage and focus on high-quality assets, the aim is to become 'a first-stop for institutions and private investors alike seeking to add life science real estate exposure to their portfolios'.

The trust has a tiered advisory fee structure starting at 1.1% of NAV (net asset value) and declining to 0.75% of NAV as it grows in scale. [IC]

Uranium's glowing performance amid energy crisis

How UK investors can play the element

THERE APPEARS TO be no let-up in the volatility in uranium prices and associated investments as the global energy crisis rumbles on.

In the wake of the disaster at the Fukushima nuclear plant in Japan in 2011 there has been a steady reduction in demand for uranium as countries turned away from nuclear power on safety concerns.

However, this could now be reversing as countries look to keep the lights on amid surging oil and gas prices and a planned shift away from fossil fuels.

The decline in uranium prices in the wake of Fukushima led many producers to cut output and shelve development plans, impacting supply.

The relative inelasticity of supply has seen the uranium market heat up rapidly in the past – between 2005 and 2007, for example, prices jumped from \$20 per pound to a record \$136 per pound.

Prices have moderated somewhat recently but are still within striking distance of the nine-year high of \$50 per pound



attained in September.

Speculative interest from traders is playing a part, with a newly listed vehicle in Canada run by Sprott Asset Management buying up uranium in material quantities in recent months.

UK investors can play uranium prices through **Yellow Cake (YCA:AIM)**, although the shares are already up more than 50% in the last six months and 13% in the last month.

The company invests directly in physical uranium rather than taking on the risks of exploring for and processing the element itself. [TS]

Bitcoin ETF optimism feeds latest cryptocurrency rally

Bulls hope ProShares' Bitcoin Strategy will get US regulator backing

Bitcoin has surged more than 40% this month putting it within touching distance of all-time records.

The world's biggest cryptocurrency by market value, rose 1.5% during the Asia trading session on 19 October to \$62,991, its strongest level since the record peak of \$64,895 struck in April 2021.

Powering the crypto rally are hopes for bitcoin exchange traded funds (ETFs) to gain regulatory approval, of which several are in the works, which could open the floodgates to billions of dollars managed by pension funds and other institutional investors to flow into the sector.

'In addition to the launch of the ProShares Bitcoin futures ETF, Interactive Brokers said it will allow Registered Investment Advisors in the US to invest in bitcoin and other cryptocurrencies,'

pointed out Neil Wilson of Markets.com.

As we went to press ProShares' Bitcoin Strategy ETF was expected to have listed under the ticker BITO, assuming it gained the official thumbs-up from the US watchdog, the Securities and Exchange Commission.

The ETF will not invest directly in bitcoin but in Chicago-traded bitcoin futures, so may not have an immediate impact on flows, said analysts.

But speculators have been betting heavily that the ETF launch, and many others like it, is the sort of positive signal for the bitcoin market that could push spot prices to new records.

The bitcoin market is currently valued at \$1.17 trillion and bulls continue to talk up its chances of narrowing the gap on gold, today worth roughly 10-times as much. [SF]

ProCook and Stelrad plot main market flotations

Stelrad and ProCook steel themselves for IPO

A NUMBER OF companies, such as roofing tiles maker Marley, have shelved float plans amid market volatility and there are concerns the quality of initial public offerings is deteriorating following a sustained new issues boom, yet some interesting hopefuls are testing investor appetite for new issues.

Among the potential main market newcomers is direct-to-consumer kitchenware brand **ProCook**, reportedly seeking a valuation of up to £250 million

through an offer that would include retail investors.

The Daniel O'Neill-led company designs, sources and sells affordable cookware, kitchen accessories and tableware in what is a highly competitive market. In the UK, ProCook sells directly to customers through its own website and operates more than over 50 brick and mortar stores, while demand from European consumers is sated through third party websites.

ProCook's sales grew by 37% to

£53.4 million in the year ended 4 April 2021, with adjusted EBITDA warming up 246% to £13.3 million. O'Neill sees significant growth opportunities in the £3.6 billion UK kitchenware market and the £8.1 billion kitchenware market in Germany, France and the Netherlands.

Also planning to list on the main market, with a mooted valuation of around £350 million, is steel panel radiators maker **Stelrad**. In the year to June 2021, sales grew 23.4% to £242.5 million and operating profit surged 64% higher to almost £32 million, as resilient Stelrad profited from a rally in sales volumes, cranked out products from lower cost facilities and successfully passed on higher steel prices. [JC]



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Buy wholesaler Kitwave which is firmly in the driving seat

Extensive fleet of vehicles and in-house drivers is enabling the wholesaler to boost its competitive position

Driver shortages and supply chain logjams are dominating the news headlines and could put a dampener on Christmas this year.

Yet one growth company doing its bit to deliver the goods in these unpredictable times is **Kitwave (KITW:AIM)**, a small cap food and drink wholesaler with its own in-house established fleet of delivery vehicles and drivers and which isn't reliant on third party logistics providers as a result.

Shares believes this independent delivered wholesale business is undervalued considering its cash generation, capacity to capitalise on the current situation to strengthen its competitive position, a proven buy-and-build strategy and its attractions as a play on the full recovery of the leisure and hospitality sectors.

DELIVERING THE GOODS

For the uninitiated, Kitwave floated on AIM at an issue price of 150p in May 2021.

Founded in 1987, the North Shields-based concern sells and delivers everything from confectionery, soft drinks and snacks to tobacco, beers, wines, groceries and frozen and chilled food, delivering to a diverse



38,000-strong UK customer base spanning convenience stores, pubs, vending machine operators and foodservice providers.

Among Kitwave's competitive advantages is an extensive depot network giving the group nationwide coverage. It offers next-day delivery for deliveries within 25 miles of a depot and three-day delivery slots nationwide. And the company typically carries 23 days of stock to ensure it can fulfil orders even in the event of inbound supply chain delays.

Growth to date has been achieved organically and by gobbling up smaller, family-owned businesses, yet canny CEO Paul Young insists the UK grocery and foodservice wholesale market remains 'highly fragmented' and presents Kitwave with 'numerous additional growth opportunities'.

Admittedly, this is a high volume yet low margin business and there is always the risk that Kitwave buys a company that proves to be sub-par. However, Young and his team know target market companies well, which limits the potential for overpaying for acquisitions.

Canaccord Genuity recently reiterated its 'buy' rating and 210p target price for Kitwave, implying 40% upside at current share price levels, with analyst Mark Photiades impressed by a visit to the company's new purpose-built Butterfield facility in Luton.

Offering over 70,000 square feet of temperature controlled bespoke frozen, chilled and ambient warehouse space to service its network of independent customers in the south, the site also provides future capacity for Kitwave's

longer-run growth ambitions.

IN THE DRIVING SEAT

Significantly, the visit also showcased Kitwave's in-house delivery fleet which the analyst says is allowing the company to 'benefit whilst others have struggled with third party providers and driver shortages'.

This is backed up by the company's highly-efficient route planning system which helps to drive route density and efficiency gains whilst also maintaining high levels of customer service.

As Canaccord Genuity explains: 'Whilst some brand owners have been short of product, given Kitwave's wide product base it is able to offer customers substitute products, thus maintaining strong customer relationships and service levels.'

With a few weeks of the financial year to October 2021 left to run, Canaccord Genuity feels confident Kitwave is on track to meet its forecasts and is 'well-placed to be able to absorb

KITWAVE IN NUMBERS

Years to October	Sales (£m)	Adjusted PBT (£m)	EPS (p)	DPS (p)
*2020	592.0	4.3	n/a	n/a
2021	360.0	1.4	5.1	6.8
2022	420.0	11.7	13.6	6.8
2023	428.4	12.6	14.1	7.0

*For 18 month period

Source: Canaccord Genuity • Created with Datawrapper

inflationary pressure' in full year 2022, stressing that historically, the company has successfully maintained gross margins during periods of supply chain inflation, without denting volumes.

Results (27 July) for the half to April were impacted by Covid-19 lockdown restrictions, especially leisure and hospitality sector closures, yet Kitwave still managed to generate £9.8 million of cash from operations and declared an interim dividend of 2.25p.

TRADING STRENGTHENS

Management flagged that trading had strengthened across June and July as lockdown restrictions eased, with volumes having moved back towards pre-pandemic levels, setting Kitwave up nicely for the seasonally more important second half.

For the pandemic-impacted year to October 2021, Canaccord Genuity forecasts sales of £360 million and adjusted pre-tax profits of £1.4 million. However, sales are forecast to recover to £420 million and £428.4 million over the next two years, fuelling pre-tax profit recovery to £11.7 million and £12.6 million respectively.

Based on next year's 13.6p

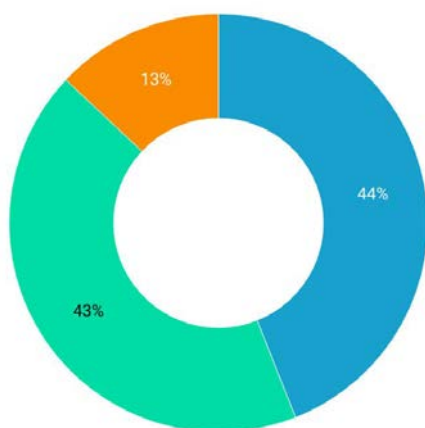
earnings per share estimate and a forecast dividend of 6.8p, Kitwave looks too cheap on a prospective price-to-earnings ratio of just below 11 times with an attractive, cash-backed 4.5% dividend yield.

We share Canaccord Genuity's view that Kitwave is 'well-placed to accelerate organic revenue and profit growth through its buy-and-build strategy' and that there is 'scope for the valuation to positively re-rate in time'. (JC)



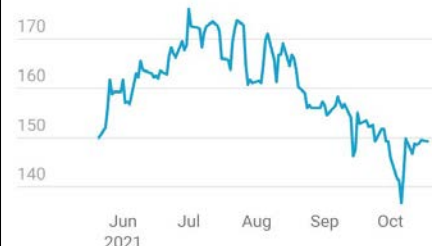
REVENUE SPLIT - 2021 ESTIMATE

- AMBIENT INCLUDING TOBACCO
- FROZEN & CHILLED
- FOODSERVICE INCLUDING ON-TRADE

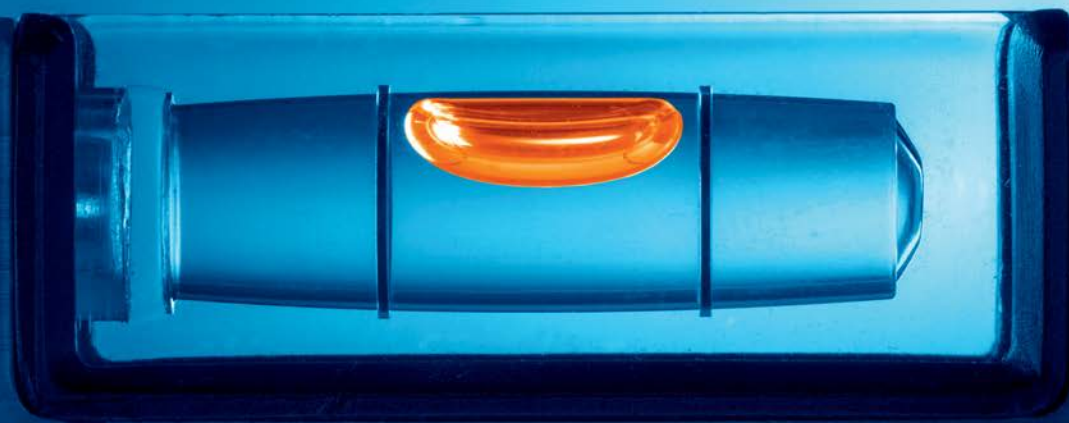


Source: Company reports, Canaccord Genuity estimates • Created with Datawrapper

Kitwave



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Time to buy into SAP's cloud shift before the market catches up

Ambitious strategy could spark complete rethink of German firm's valuation

We believe German software giant SAP's ambitious cloud computing strategy is working and while stock market investors have been slow to give credit, this will change. Cloud revenue is growing increasingly fast – up from 11% in the second quarter Q2 (to 30 June) to 20% in Q3, the company has already said.

Investors will get more detail today (21 Oct), when full Q3 results are reported, but we have already had the company's first glance at the numbers (12 October), when SAP upped full year to 31 December revenue and profit on the back of a 24% jump in order backlog. Some of its cloud products are powering even faster forward, with its analytics platform HANA posting a 60% backlog surge.

SAP has been providing critical business applications for decades, mainly to an army of small and medium-sized enterprises (about 80% of sales). Its vast enterprise resource planning suite are tools without which businesses simply could not run. They cover areas such as supply chain management, human resources, customer experience management and analysis, spend intelligence, machine learning-based analytics, and more. There's also

SAP
 **BUY**
 €123.68

Market cap: €152 billion

a €4 billion venture capital arm called Sapphire Ventures.

SAP has embraced the cloud for years but in 2020 it went all-in, unveiling a strategy to migrate its thousands of business clients. The company wants €22 billion cloud revenues by 2025, more than double the €9.3 billion to €9.5 billion raised 2021 guidance.

The long-run cost, distribution and efficiency benefits are too attractive for clients to dig their heels in. While the switch may depress SAP's overall revenues and margins in the short-term, the long-run pay-off is increasingly 'sticky' subscription revenues from a cheaper, more flexible platform for users, plus a lower cost of distributing new tools, updates and enhancements.

This is a great opportunity to buy a global software giant trading a vast discount to other fast-growing cloud specialists. US rivals Salesforce.com, Workday and ServiceNow trade on an average 20-times 2025 revenue.

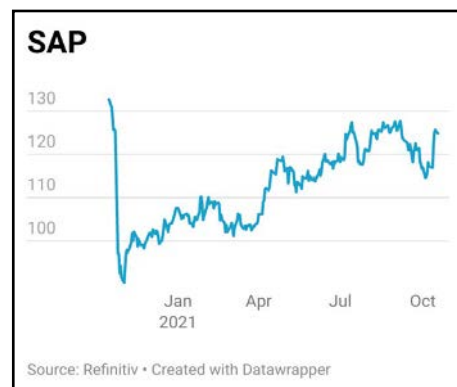
Apply the same multiple to

SAP's targeted €22 billion of cloud sales, and that division alone should be worth more than €440 billion, including net debt, roughly three-times SAP's current enterprise value.

Put it another way, Salesforce.com, Workday and ServiceNow trade on premium valuations to SAP despite having none of its profit and cash flow power. SAP currently trades on a price to earnings multiple of about 25, with operating profit margins of more than 22% and €4.5 billion of free cash flow expected this year.

ServiceNow and Salesforce trade on triple-digit ratings and low single-digit operating margins. Workday isn't even profitable yet.

SAP stock should be easily accessible on any decent investment platform, with both German and New York Stock Exchange-listed options available.



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Standardised past performance to 30 June*	2017	2018	2019	2020	2021
SCOTTISH MORTGAGE	48.8%	33.4%	0.7%	55.4%	62.8%
FTSE ALL-WORLD INDEX	23.0%	9.4%	10.1%	5.7%	25.0%

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Actual Investors

*Source: Morningstar, share price, total return in sterling as at 30.06.21. Index data source: FTSE Russell, full information can be found at baillieghifford.com/en/uk/legal. **Ongoing charges as at 31.03.21 calculated in accordance with the Association of Investment Companies (AIC) recommendations. Details of other costs can be found in the Key Information Document. Your call may be recorded for training or monitoring purposes. Issued and approved by Baillie Gifford & Co Limited, whose registered address is at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Trust. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised and regulated by the Financial Conduct Authority.

QINETIQ

(QQ.) 290.8P

Loss to date: 2.74%**Original entry point:****Buy at 299p, 23 December 2020**

DEFENCE AND cyber security company **QinetiQ (QQ.)** surprised investors on 14 October when it flagged a supply chain issue relating to a large complex multi-year programme, sending the shares 13% lower.

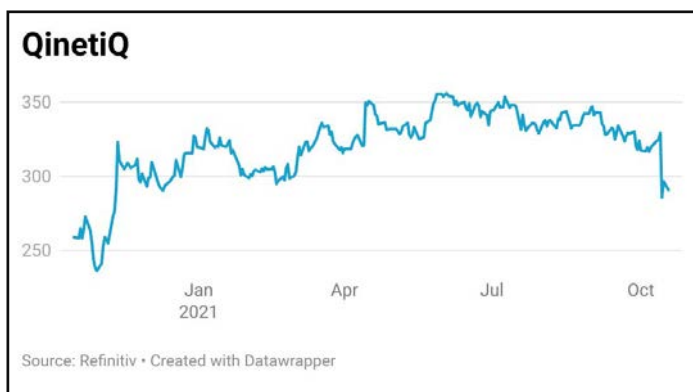
The company said it was making progress with the client towards a recovery of the programme which is expected to mitigate the risk to less than £15 million.

Analyst Richard Palge at Numis said he was hoping that QinetiQ's management were following past behaviour and being highly conservative in their financial assessment.

QinetiQ will provide more details at its preliminary results on 11 November, but management seem confident that the issue is temporary and can be contained within the current financial year.

Indeed, medium term guidance was maintained and calls for mid-single-digit organic growth with strategic acquisitions adding on top and for an operating profit margin of between 12%-to-13%.

The supply chain issue detracted from a strong first half with order intake up 25% to £700 million year-on-year despite tough comparatives last time when orders grew 37%.

**SHARES SAYS: ↗****QinetiQ remains a buy. [MG]****XP POWER**

(XPP) £52.48

Gain to date: 14.7%**Original entry point:****Buy at £45.75, 20 August 2020**

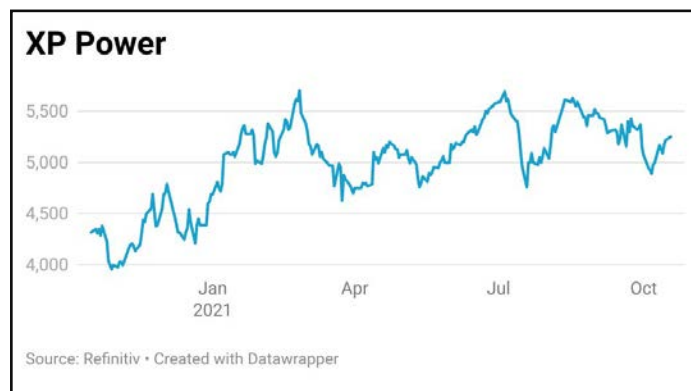
COMPONENT SHORTAGES continue to dog global manufacturing but some companies have navigated the supply chain strain better than others.

Power components designer **XP Power (XPP)** recently admitted near-term challenges yet analyst at broker Numis came away from a management meeting brimming with confidence for the longer-term. Interestingly, the analysts left 2021 and 2022 forecasts alone and reiterated scope for the share price to hit £60 records over the coming year or so.

Encouragingly, third quarter order wins of £97.3 million, supported by an ongoing industrial technology recovery and stronger demand in healthcare now imply an order backlog of around £186 million – that's more than 70% of Numis' £252.5 million 2022 revenue forecast.

Management also see scope to continue pushing operating margins higher from the 19.4% posted in the first half this year, which is still 270 basis points below five-year peak margins, Numis says.

The company sees emerging acquisition opportunities and it has the balance sheet strength to tap into them when ready (net debt to earnings for interest, tax, depreciation and amortisation is just 0.3 times).

**SHARES SAYS: ↗****XP Power shares remain attractive for longer-term value creation. [SF]**



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Actual Investors

SUPREME

(SUP:AIM) 195P

Gain to date: 4%**Original entry point:****Buy at 187.5p, 27 May 2021**

OUR BULLISH call on **Supreme (SUP:AIM)** may be a modest 4% in the money but we remain enthused by the growth and income potential of the fast-moving consumer products maker.

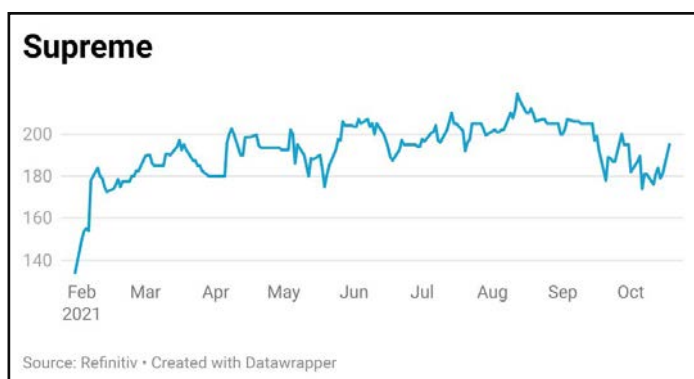
The shares were boosted by a positive trading update (18 Oct) from the batteries, vaping and vitamins specialist, which flagged a strong performance in the first half to September 2021 and remains confident in achieving full year expectations.

Margins have proved 'particularly strong', enabling Supreme to generate 'significant' year-on-year growth in profitability.

Positive momentum has continued in its vaping division, it has seen good growth in the sports nutrition and wellness category and the batteries category 'continues to be a defensive and predictable profit contributor'.

Reassuringly, as Supreme manufactures key vaping and sports nutrition products in-house, it has proved 'relatively unaffected' by the global supply chain issues affecting other areas of the economy.

Back in July, Supreme posted impressive results for the year to March 2021, showing a 21% surge in adjusted pre-tax profits to £16.4 million on sales up a third to £122.3 million, and a maiden dividend is expected alongside December's first half.

**SHARES SAYS: ↗****Still a buy at 195p. (JC)****DISNEY**

\$171.14

Loss to date: -0.4%**Original entry point:****Buy at \$171.82, 21 January 2021**

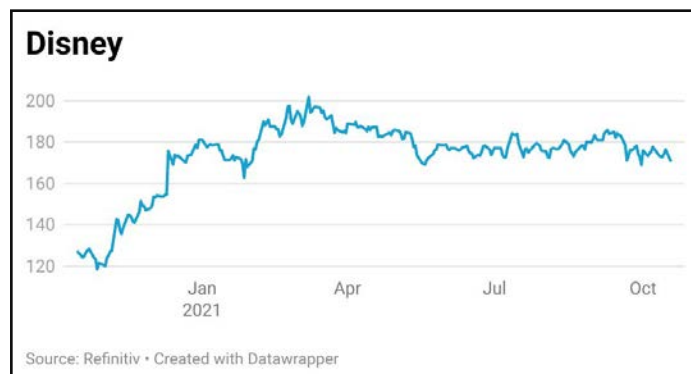
A DISAPPOINTING swoon in entertainment giant Disney's share price in recent months has wiped out our gains with the latest catalyst the delayed release of major titles slated for 2022.

While the company has found the going a little tougher of late we remain big fans of its earnings potential and see nothing to detract from the long-term investment case.

The latest installment in the Indiana Jones series has been pushed back by a year to summer 2023 while several films from the MCU or Marvel Cinematic Universe are also being pushed back with other untitled projects for 2023 being shelved.

This reflects production issues and also the interconnected nature of the MCU with the release of the latest entries to the pantheon meticulously planned to make narrative sense.

The news follows on from a muted update in September when the company said growth in paid subscribers for its Disney+ streaming service would moderate to low single-digit millions in its fourth quarter and signaled dividends and buybacks remained off the table due to cash flow and debt constraints.

**SHARES SAYS: ↗**

Investors should look past the current issues and focus on Disney's advantages including its huge resonance with consumers. [TS]

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

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

AVI has a well-defined, robust investment philosophy in place to guide investment decisions. An emphasis is placed on three key factors: (1) companies with attractive assets, where there is potential for growth in value over

time; (2) a sum-of-the-parts discount to a fair net asset value; and (3) an identifiable catalyst for value realisation. A concentrated portfolio of c. 37* investments allows for detailed, in-depth research which forms the cornerstone of our active approach.

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

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

DISCOVER AGT AT WWW.AVIGLOBAL.CO.UK

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

Past performance should not be seen as an indication of future performance. The value of your investment may go down as well as up and you may not get back the full amount invested. Issued by Asset Value Investors Ltd who are authorised and regulated by the Financial Conduct Authority.

SIMPLE WAYS TO INVEST

3 low-cost funds to grow your wealth

By **Tom Sieber** and **Daniel Coatsworth**

Do you want to start investing in an ISA without the hassle of researching lots of stocks? Exchange-traded funds (known as ETFs for short, or sometimes tracker funds) could be the solution as they are a low-cost and simple way to create a diversified portfolio.

In this article we talk about the benefits of using ETFs and build a hypothetical portfolio for someone looking to grow the value of their investments over the long term.

You don't need to worry about any tax issues if you buy the ETFs inside an ISA as any profit you make from the investment is free from tax, so are dividend payments.

WHY USE ETFs?

ETFs are cheaper than traditional investment funds because they track an index of stocks and shares or other investments like bonds. There are rules that say what can go in the index, so the ETF just mirrors its performance.

For example, a FTSE 100 ETF would track the performance of the FTSE 100 index, which is a



basket of the 100 biggest companies on the London Stock Exchange. If the FTSE 100 went up by 5% in a week, the ETF should do the same, in theory. There are very small charges to consider, so the ETF might lag the index by a tiny amount once charges are factored in.

A traditional investment fund, such as a unit trust, has a fund manager deciding what should go in and out of their portfolio and their fees tend to be much higher than an ETF. After all, you're paying a person to manage the investments, whereas an ETF is just a computer following a set of rules.

HOW DO I MAKE MONEY?

When you buy an ETF, one way to make money is from your investment rising in value. If you sell the ETF at a higher price than you bought it, that's known as a capital gain.

One of the benefits of investing is something called 'compounding'. This is when you earn money based not just on the cash you invested at the outset but also on any gains you've made in the interim.

Let's assume you achieve a 6% annual return on an initial £10,000 investment. At the end of the first year, your investment would be worth £10,600, or a gain of £600.



In the second year, the same 6% return on £10,600 would equate to a gain of £636 – higher than you got in the first year despite the same percentage return. At the end of that second year your initial £10,000 investment would be worth £11,236.

In the third year, a 6% annual return would equate to a gain of £674, meaning your original £10,000 is now worth £11,910.

One might have thought three years of investment at 6% a year would result in 18% total gain (3 x 6%). However, compounding has supercharged it, producing a gain of more than 19% in those three years.

If you tuck away your money for longer periods, say 10 or even 20 years, those compounding benefits really shine through.

PAY ATTENTION TO CHARGES

The figures in our example exclude costs – and costs really matter when you're investing. If you invested £10,000 in an account and earned 6% a year for 25 years and had no costs or fees, you'd end up with around £43,000. Let's say you paid a

charge of 0.25% on the ETFs in your portfolio, after the same period you would still have a little over £40,000.

However, if you paid the 1% often charged by traditional actively managed funds, the same £10,000 investment would be worth less than £34,000 after 25 years. That's why ETFs, with only modest fees, can be a lucrative long-term strategy, albeit there are no guarantees you will make money. It's important to consider that you could even lose money with investing.

We do see merit in actively managed funds if the fund manager can add value through clever stock picking or portfolio management. But for the most straightforward and simple approach, ETFs can be the perfect solution to investors who want no-fuss exposure to the markets.

COLLECT OR REINVEST DIVIDENDS?

Often, you'll see two versions of an ETF. One has the letters 'INC' in the product name and the other has 'ACC'.

In a nutshell, the INC will pay you any dividends in cash and the ACC version will automatically reinvest dividends.

Buying the ACC version of an ETF is a good way to further boost the benefits of compounding.

WHERE DO I START?

Read on to discover three ETFs which could help someone aged 18 to 60 create a really good investment portfolio aimed at growing the value of their money rather than generating income. We'll do a similar exercise for income ETFs in a future edition of *Shares*.



THREE ETFs TO BUY NOW

A REPORT IN 2010 by index provider MSCI suggested that investors may only need to look at three segments of the investment universe to have adequate allocation to global stock markets. These segments are:

- Developed markets large/mid cap
- Developed markets small cap
- Emerging markets

The term 'cap' stands for capitalisation. In plain English, it refers to the market value of a company. For example, a business valued at more than £10 billion is often referred to as a large cap. Mid-caps

might be in the region of £2 billion to £10 billion, and small caps less than £2 billion.

If we follow MSCI's suggestions, there are plenty of ETFs which provide exposure to each of these segments. *Shares* believes it is prudent to allocate more money to developed markets than emerging markets because the latter can be more volatile and higher risk.

An investor may therefore want to consider putting 55% of their money into a developed market large cap ETF, 30% into a developed market small cap ETF and 15% into an emerging markets ETF.

Read on to discover our top picks (which are all 'ACC' versions of each ETF, so any dividends are automatically reinvested).

LARGE CAPS:

Lyxor Core MSCI World ETF (LCWL)

£11.28

Ongoing charge: 0.12%

BUY

The Lyxor ETF is an excellent starting point for an investor seeking diversified exposure to the stock market. It tracks the MSCI World index which is a basket of more than 1,500 stocks from across the developed world, including such names as Apple, Microsoft, Amazon and Tesla.

The average market value of stocks in the MSCI World index is \$37.1 billion (£27 billion).

The US dominates the MSCI World index, with American stocks representing just over two thirds of all companies in the index.

Firms from Australia and New Zealand, across Europe as well as Singapore and Hong Kong also feature. Over the past three years this product has delivered an annualised return of 14.27%, according to data from Morningstar.

To find the ETF on your ISA provider's platform, type in the code 'LCWL'.



Lyxor Core MSCI World ETF



Source: FE Fundinfo, 14 Oct 2021 • Created with Datawrapper

SMALL (AND MID) CAPS:

iShares MSCI World Small Cap ETF (WLDS)

539p

Ongoing charge: 0.35%

BUY

The iShares ETF tracks the MSCI World Small Cap index, which follows more than 4,400 stocks across 23 developed market countries.

The average value of companies in the index is \$1.9 billion (£1.4 billion), yet the pack does include

some larger businesses which means you're getting some mid-cap exposure alongside smaller companies.

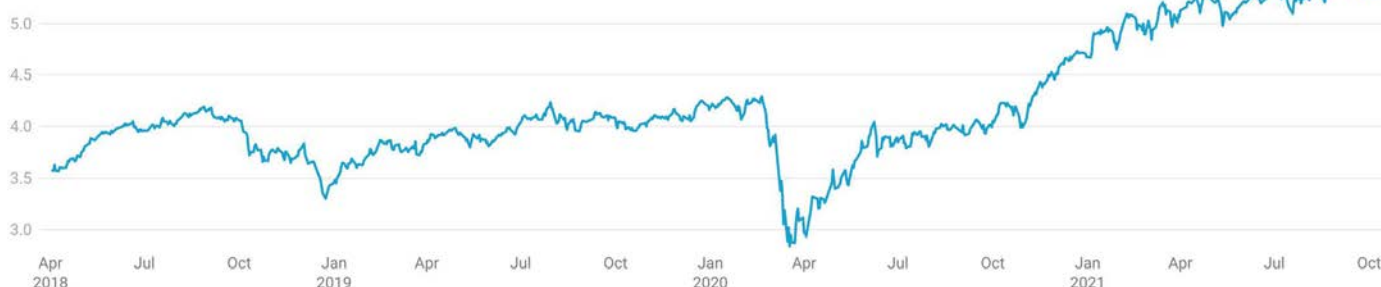
While the members are not necessarily household names, a key attraction of investing in smaller companies is getting exposure to businesses that will hopefully become better known in time.

The top positions in the index include software provider Bill.com and cookware-to-home furnishings group Williams Sonoma.

According to MSCI, the index has generated 12.81% annualised returns over the past decade. To find the ETF on your ISA provider's platform, type in the code 'WLDS'.



iShares MSCI World Small Cap ETF



Source: FE Fundinfo, 14 Oct 2021 • Created with Datawrapper

EMERGING MARKETS:

iShares Core MSCI EM IMI ETF (EMIM)

£26.59

Ongoing charge: 0.18%

BUY

Periods of significant volatility in emerging markets can detract from what is a more positive long-term picture.

Between 31 December 1987 and 30 September 2021, the underlying MSCI Emerging Market index delivered annualised returns of 11.7% compared with 9.6% for its developed economy counterpart the MSCI World. Five-year annualised returns from the iShares ETF are a more modest 7%.

Past performance is not necessarily guide to the future but there are drivers in place which could make emerging markets exposure attractive for an investor with a long-term investment timeframe.

These include a growing middle class which is boosting levels of domestic consumption, larger working age populations than in many Western countries and an increasing role for technology which is helping improve the quality of individual businesses.

Investors should be aware that China dominates the MSCI Emerging markets index with a weighting of more than 30% and among the top holdings are Chinese tech firms which have been victims of a recent crackdown by the authorities in Beijing.

Patience is required when investing in emerging markets as when life is going well, relevant stocks

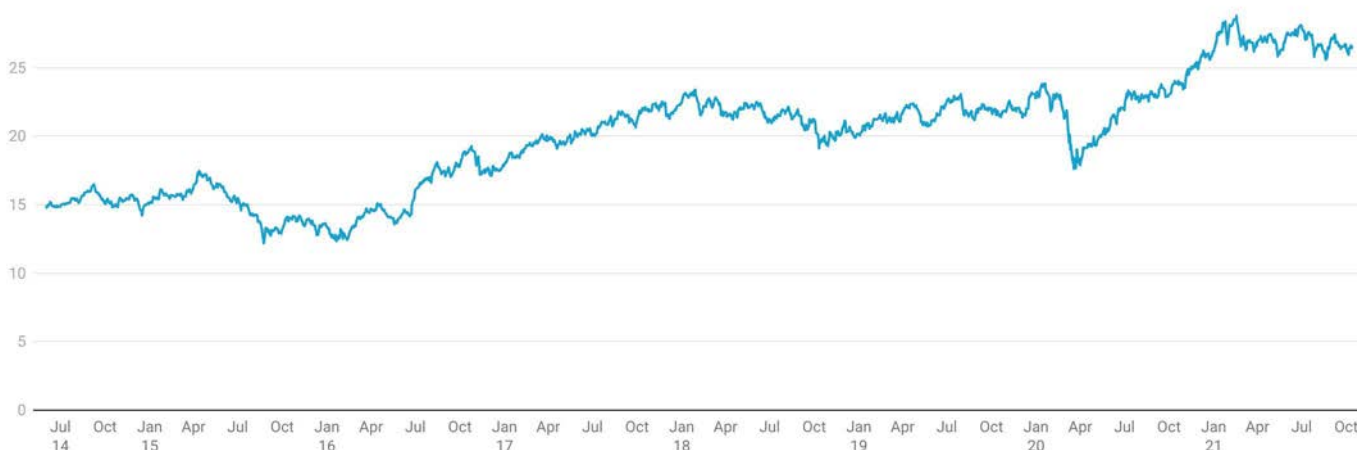


can do very well – but in tougher times, these markets can fall hard and fast. That's why it is worth only having a small percentage of your money tied up in this area.

To find the iShares ETF on your ISA provider's platform, type in the code 'EMIM'.

DISCLAIMER: Co-author Daniel Coatsworth owns shares in iShares Core MSCI EM ETF

iShares Core MSCI EM IMI ETF



Source: FE Fundinfo, 14 Oct 2021 • Created with Datawrapper

We see potential in the overlooked and underloved



FIDELITY SPECIAL VALUES PLC

This investment trust seeks out good-quality but unpopular companies, whose long-term growth potential has been overlooked by the market.

Portfolio manager Alex Wright's contrarian approach to the trust thrives on volatile and uncertain markets, when there's more chance of stocks being misjudged and undervalued. Investing mainly in the UK, and supported by Fidelity's extensive research team, Alex looks to invest in out-of-favour companies, having spotted a potential trigger for positive change that he believes has been missed by others.

It's a consistent and disciplined approach that has worked well; the trust has outperformed the FTSE All Share Index over the

long term both since Alex took over in September 2012 and from launch 26 years ago.

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

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

PAST PERFORMANCE

	Aug 16 – Aug 17	Aug 17 – Aug 18	Aug 18 – Aug 19	Aug 19 – Aug 20	Aug 20 – Aug 21
Net Asset Value	19.1%	8.7%	-4.9%	-18.5%	56.2%
Share Price	28.1%	14.0%	-6.9%	-25.4%	73.8%
FTSE All Share Total Return Index	14.3%	4.7%	0.4%	-12.6%	26.9%

Past performance is not a reliable indicator of future returns.

Source: Morningstar as at 31.08.2021, bid-bid, net income reinvested.

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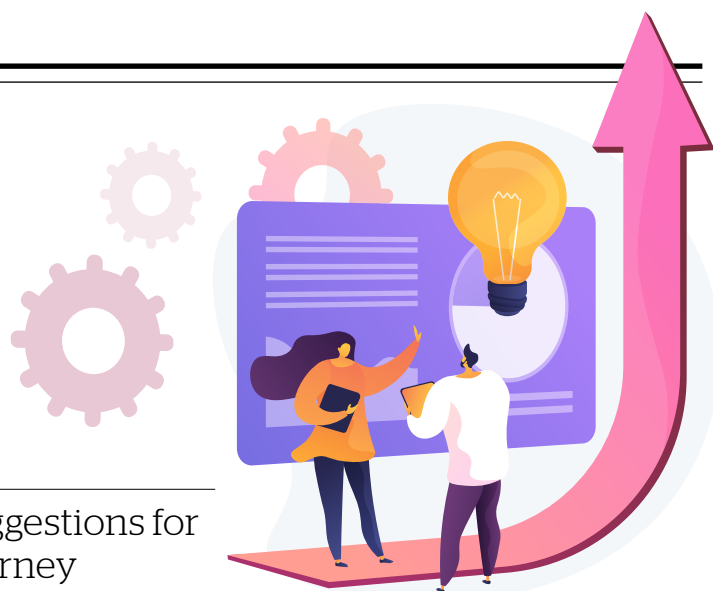
**To find out more, scan the QR code,
visit fidelity.co.uk/specialvalues or speak to your adviser.**



ELITE FUND
rated by FundCalibre.com



How to turn £10,000 into £100,000



We look at different scenarios and offer suggestions for two stocks that might help you on your journey

Wouldn't it be nice to turn £10,000 into £100,000 by investing in the stock market, and not having to wait a lifetime for it happen? It is possible but not necessarily easy.

The level of difficulty really depends on your timeframe and risk appetite as we shall explain in this article.

We have approached the task by looking at what different assets have historically returned to investors over very long-time frames.

The annual Barclays Equity-Gilt study shows that over the last 121 years UK equities as represented by the FTSE All-Share index have delivered a compound annual growth rate of 8.9% a year.

It's paramount to stress this return includes reinvesting all dividend income. Without reinvesting income, the compound average growth rate falls to 4.2% a year.

Presenting the data in percentages might not paint as useful a picture as doing so in actual money.

£100 invested in 1899 would theoretically be worth £2.9 million today if all dividend income were reinvested

Today's value of £100 invested at the end of 1899 without reinvested income

Equities (£)	15.179
Gilts (£)	71

Source: Source: Barclays Research May 2021 • Created with Datawrapper

Today's value of £100 invested at the end of 1899 with income reinvested gross

Equities (£)	2,912,938
Gilts (£)	48,885
Cash (£)	20,933

Source: Source: Barclays Research May 2021 • Created with Datawrapper

compared with a mere £15,179 if not. This dramatically shows the effect of compounding over very long periods.

For comparison purposes investing in the government bond markets would have returned £48,885 and a bank deposit account would theoretically be worth £20,933.

It's worth pondering over these facts, because it is conventional wisdom that shares outperform bonds in the long run but much less commonly known that this performance is

entirely dependent on reinvesting dividend income.

INVESTING IN THE STOCK MARKET

Assuming the FTSE All-Share delivered a similar return in the future (we should explain here that 8.9% a year in aggregate is composed of a wide range of different annual returns), it would take around nine years to simply double your capital by investing in a fund that tracked the index.

This excludes fees and tracking error, or the difference between the underlying index return and the fund return.

However, to get to 10 times our starting capital (i.e. turn £10,000 into £100,000) we need to double the capital another four times. At an annual growth rate of 8.9% it would take another 18 years of continuous investing and reinvesting dividends, or around 27 years in total, to achieve the goal.

Because the FTSE All-Share is composed of around 600 companies it provides a very diversified and low risk exposure to many names on the UK stock market (it's virtually impossible for the index to become worthless).

That's not to say it is riskless, remember that shares are still

risky even held in a diversified portfolio. The Barclays study shows there have been decades where equities have provided negative returns, but they are relatively rare.

One way to track the FTSE All-Share index is via a fund such as the **iShares UK Equity Index Fund (B7C44X9)** which charges 0.05% a year.

MOVING UP THE RISK LADDER

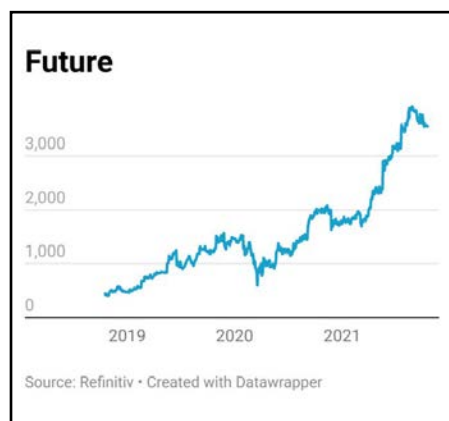
Individual shares can deliver a 10-fold return in relatively short time frames but finding them ahead of such an explosive move is very challenging. Also, bear in mind that putting all your £10,000 capital in a single company risks losing it all.

And remember that for an individual share to go up 10-fold the underlying business needs to grow by a similar magnitude or the valuation placed on the business needs to increase dramatically.

SHARES THAT HAVE GONE UP 10-FOLD IN UNDER FIVE YEARS

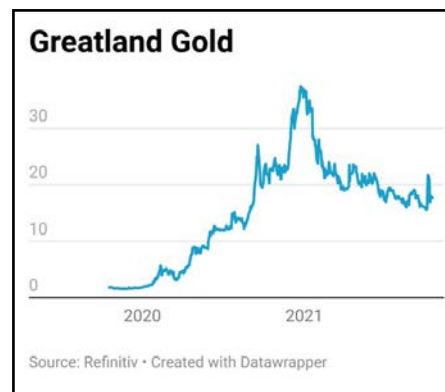
Digital media group **Future (FUTR)** has delivered a compound annual growth rate of 100% a year in just over three years, providing investors with a 10-bagger in that time frame.

This is down to a mixture



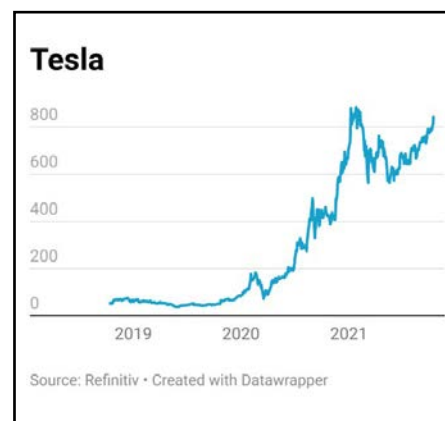
of earnings growth and an increased valuation multiple put on the business by investors.

Metals exploration group **Greatland Gold (GGP:AIM)** has seen its shares rise 10-fold over the last two-and-a-half years, and better still has a five-year compound annual growth rate of 157% a year, equivalent to turning £10,000 into £1.1 million in five years.



Faster still, investors in electric car company Tesla have seen their shares rise 10-fold in under two years. Tesla hasn't increased its profits by 10-times in the last two years, but investors have bet that the company will become more profitable.

This underscores the difficulty of finding the path to big quick returns – it relies on human emotions. As Isaac Newton once said: 'I can calculate the motion of heavenly bodies but not the madness of people.'



STOCK SUGGESTIONS

That said, if you don't try you won't achieve anything, so with that thought in mind we highlight two stocks that might provide super-sized returns in the years to come.

We are looking for the investment to work out (grow 10-fold) over the next three to eight years which implies that earnings are growing between 33% a year and 100% a year, but we are also looking for the potential for multiple expansion.



In plain English, that means investors are prepared to pay a higher multiple of earnings to own the shares. For example, a stock might have traded on 20 times earnings, but it's done something to convince the market it should now trade on 30 times earnings – that's a multiple expansion.

The most powerful stock moves are often a combination of profit growth (fundamentals) and multiple expansion (investors paying more for the profits).

Just remember there are no guarantees with investing and that you can lose money as well as make it.

CVS (CVSG:AIM) £24 Market value: £1.7 billion

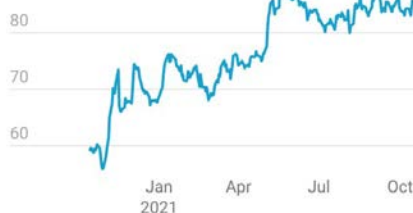
Integrated veterinary practices group **CVS (CVSG:AIM)** has grown its revenues at a compound annual growth rate of 15% and earnings at 20% over the past three years.

While this was partly the result of increased demand for pet ownership during lockdown, we believe the industry has secular growth drivers.

The company has a good growth runway which it can deliver through both organic and acquisitive means while it is achieving its aim of becoming the employer of choice.

One aspect of the business which we find interesting and

CVS



Source: Refinitiv • Created with Datawrapper

is perhaps underappreciated is the increasing number of services that have been rolled out in recent years. These range from crematoria, laboratories, referrals to insurance and e-commerce.

Not only do these additional services bring incremental revenues but they address the whole life cycle of owning companion animals and



potentially create a network effect where CVS attracts third parties to its nexus.

There is potential for margins to increase as the company scales its operations and as the network effect takes hold, which should attract a higher multiple.

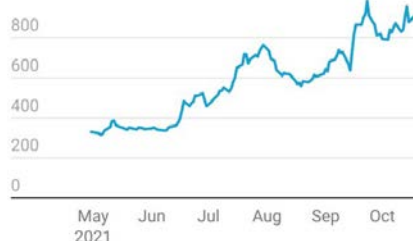
Darktrace (DARK) 964p Market value: £6.3 billion

Cyber security company **Darktrace (DARK)** is one of the world's fastest growing companies with a leadership position in Enterprise Immune System technology, which is based on pioneering mathematics developed at Cambridge University.

The underlying cyber security market is forecast to grow at around a compound annual growth rate of 14.6% a year over the next five years and could be worth around \$400 billion according to Fact and Factors research, while Darktrace could exploit its technological edge to carve out a leading position.

Analysts at Needham Research believe Darktrace has the most innovative application of artificial intelligence and security

Darktrace



Source: Refinitiv • Created with Datawrapper

automation in the market.

While the company's shares have been hugely successful since coming to the market in April 2021, there appears to be good momentum in the business with management increasing earnings guidance given at the time of the floatation.

Even if Darktrace only matches the current consensus forecast for 2023 revenues of around \$493 million, arguably that is barely scratching the surface in terms of the estimated market potential.



Investors will naturally want to see progression on turning revenues into profits from the losses projected but the bigger picture is about grabbing a good slice of the ever-expanding cyber security market and Darktrace seems to be delivering so far.



By **Martin Gamble**
Senior Reporter

Think value investing? Think Temple Bar

Temple Bar Investment Trust is a well-established investment company with a disciplined, value-oriented investment approach. Managers Nick Purves and Ian Lance have more than fifty years of investment experience between them and are focused on investing the Temple Bar portfolio in businesses that they believe are available at a significant discount to intrinsic value.

This discipline is known as value investing, and it has a very long history of outperformance. More recently, however, it has struggled in the growth-dominated markets of the last decade. Many investors have abandoned the approach as a result, but recent market behaviour suggests value investing may be resuming its former dominance.

The Temple Bar Investment Trust is well placed to benefit from a continued rotation into UK value stocks. That's why, if you want to gain exposure to the UK value opportunity, you should consider Temple Bar.

For further information, please visit templebarinvestments.co.uk

"UK stocks look attractively valued in a global context and when compared to history. We believe that recent market behaviour suggests the stars are aligned for an improvement in the performance of value stocks in the years ahead. Timing such a change in market conditions precisely is always difficult, but the long-term opportunity for UK value investors is significant."

Ian Lance, Portfolio Manager, Temple Bar Investment Trust



No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment. Investments can go up and down in value and you may not get back the full amount invested. The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice. RWC Asset Management LLP is the appointed portfolio manager to the Temple Bar Investment Trust Plc, and is authorised and regulated by the Financial Conduct Authority.



Inflation, deflation or stagflation: how to prepare your portfolio

The assets that could do well in each of these three situations

Doubt is not a not a pleasant condition, but certainty is absurd,' is a valuable insight from 18th century French writer Voltaire and right now investors have much to consider.

No-one knows what is coming next, not even central bankers. If they did, the monetary authorities would hardly still be running policies that were described as emergency measures when they were launched in the wake of the Great Financial Crisis.

Possible outcomes include an inflationary boom, a deflationary slump or a stagflationary swamp and the hard part is that each scenario potentially requires a different portfolio solution and asset allocation strategy, at least if history is any guide.

POSSIBLE SCENARIOS

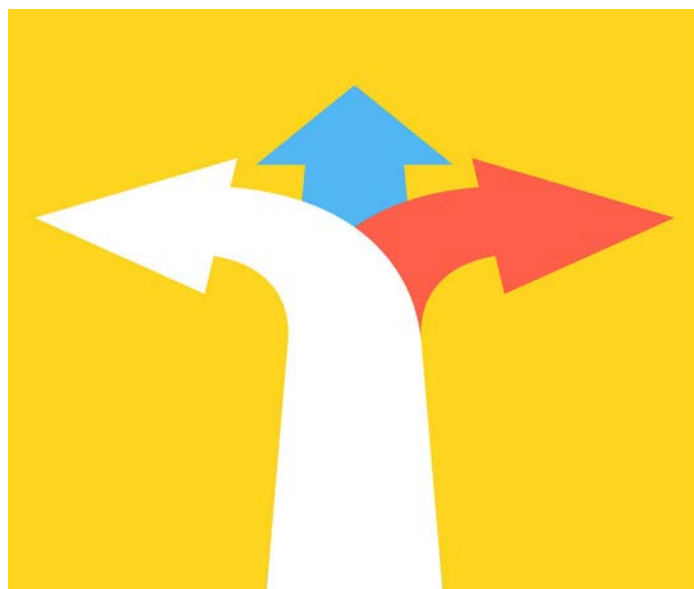
It is easy to make a case for any one of those three scenarios:

1. Inflation

- Onshoring will mean more expensive, Western labour;
- Soaring energy prices as supply of hydrocarbons is restrained to meet zero-carbon targets even as demand grows;
- Monetary and fiscal stimulus that are boosting overall demand for goods and services even as supply chains remain brittle, even fractured.

2. Deflation or disinflation

- Technology continues to drive productivity and automation reduces the need for staff and workers;



- The erosion of the power of trades unions keeps a lid on wage demands;
- Supply-side bottlenecks and temporary dislocations in supply start to ease.

3. Stagflation

- Global debt levels stand at record highs and interest payments suck cash away from other, more productive investment and hold back growth;
- Quantitative easing and zero interest rate policies keep alive zombie firms which are hogging capital that could perhaps be allocated more effectively elsewhere;
- Demand starts to stagnate after an initial post-pandemic boom, should central banks and governments start to offer less, or even withdraw, stimulus.



Multiple macro and market outcomes are still possible

SCENARIO	INFLATION	DEFLATION	STAGFLATION
Case for	Onshoring	Demise of unions	Debt
	Energy supply restraint	Tech and productivity	QE and zombie firms
	Fiscal and monetary stimulus	Easing of bottlenecks	Stagnant demand
Precedents	UK early 1970s	UK, USA, 1930s	UK late 1970s
	US 1970s	Japan since 1990	
	Emerging markets 2010s		
Portfolio winners*	'Real' assets	'Paper' assets	Gold
	Short-duration assets	Long-duration assets	Pricing power
	Value / cyclical (jam today)	Technology (jam tomorrow)	Asset-light
	Commodities	Bonds	
	Property	Cash	
	Index-linkers		

*Based on past performance only. The past is no guarantee for the future.
Created with Datawrapper

POSSIBLE OUTCOMES

There are precedents for all three and investors can look back on those episodes for guidance as to which asset classes did best then – albeit in the knowledge that the past is no guarantee for the future.

1. Inflation

Inflation has in the past seen 'real' assets outperform. Governments can print money, but they cannot print oil, gold or property, and those 'real' assets may therefore offer some degree of

wealth preservation in the face of rampant money creation.

Index-linked bonds may offer some protection and investors may also be tempted to gravitate toward cyclical.

If inflation is running hot, then nominal GDP will look good, so will nominal sales and possibly profits. In that case, investors will be able to buy earnings and cash flow growth now – jam today – and do so at firms that have underperformed and are potentially cheap. This contrasts to the long-term growth stocks which have done so well for so long, offering jam tomorrow at much higher multiples as a result.

The caveat here is that UK equities started their post crack-up boom recovery in the mid-1970s after a crushing bear market which left stocks trading on an average of barely five times forward earnings.

The UK now trades on a mid-teens-earnings multiple and the US is on the low-20s, so the starting points are very different on this occasion.

2. Deflation or disinflation

Deflation, or at least disinflation, would lean towards cash and bonds, uncomfortable as that may sound, especially given where yields are right now.

If prices start falling, even those modest (or even negative nominal) returns would look appealing, given the capital preservation they would offer.

In the case of deflation, the odds on central banks returning to aggressive quantitative easing and negative interest rate policies must be good, creating a price insensitive buyer for fixed-income instruments, especially government bonds.

A repeat of the last 10 years' low-growth, low-inflation, low-rates environment could also lead investors to stick with another asset class that has worked so well for the last decade, namely growth stocks, such as tech, biotech and social media.

These firms are considered capable of generating earnings growth almost regardless of the economic conditions and as such are highly prized and enjoy premium valuations as a result.

The caveat is that it is unusual for the globe to

RUSS MOULD

AJ Bell Investment Director



Insightful commentary on market issues

remain in a steady state for too long – change is the only constant.

It is tempting to extrapolate our most recent experiences and base our future expectations upon them but from an investment point of view this often leads to trouble.

Anyone who bought Japan in 1990, tech media and telecoms in 2000 and China and mining stocks in 2010 – all after a decade of stunning performance – would have suffered terrible returns for the next decade and more.

3. Stagflation

Stagflation is much the rarest scenario and we only have the 1970s to lean upon. It is possible to argue there are clear parallels between then and now – governments scrabbling to find money for welfare programmes, easy money in the form of fiscal stimulus, a potential energy shock and heightened geopolitical tensions – with the result that we could yet have to face the worst of both worlds: limited or negative GDP growth and sticky or rising prices.

In the 1970s, gold was the best performing asset by a mile, as it surged from \$35 an ounce to a peak

above \$800. The caveat is that we are starting off at \$1,800 an ounce this time around.

THINK ABOUT THE FUTURE

No-one knows what is coming. But we do know what the markets are pricing in, because equities ('paper assets') have outperformed commodities ('real assets') hands down for a decade, with growth and tech stocks leading the way.

That implies markets still have faith in central banks, see the current inflationary spike as transitory and believe the formula for the last decade will remain the same in the next one.

That could come to pass. But if nothing else, investors know that any deviation from that path, in the form of inflation or stagflation, could cause volatility and see different asset classes come to the fore.

A portfolio that prepares for all three scenarios through diversified asset allocation might be a plan to consider, complete with some cash for downside protection and scope to buy amid any wider shakedown, even if the investor may then choose to tilt that allocation to the scenario they feel is most likely.

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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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Oxford Nanopore puts London back on map for modern company IPOs

The flotation of Made Tech should also help show the world that AIM can be a good place for smaller tech firms

In recent months market commentators have highlighted the diminishing appeal of the London equity market as a destination for fast growing life science and technology companies to make their stock market debut. However, there are still reasons to be optimistic.

A fifth of all companies that undertook an IPO (initial public offering) in 2005 selected the London Stock Exchange. A decade and a half later London's share of IPOs had dropped to 4%, and the number of companies listed on it has fallen by 40% since the peak in 2007.

The FTSE 100 has a preponderance of old economy banking, mining and energy stocks. Technology stocks account for less than 2% of its value. This compares with a figure of 39% for the S&P 500, its American equivalent.

However, two recent IPOs, DNA sequencing group **Oxford Nanopore (OMT)** and **Made Tech (MTEC:AIM)**, a provider of digital, data and technology services, suggests a brighter future for London's IPO market in terms of attracting science and technology businesses.



BREAKTHROUGH BIOTECH LISTING

Oxford Nanopore is the London Stock Exchange's first major biotech listing since 2014 and is amongst the five largest in Britain this year.

It produces rapid Covid tests and pocket size DNA sequencing devices. The latter are used for a range of purposes, including diagnosis and treatment of diseases.

Sequencing allows healthcare practitioners to determine if a gene or the region that regulates a gene contains changes called variants or mutations that are linked to a disorder.

Traditionally the DNA sequencing market has been dominated by American companies like \$68 billion Illumina which listed on NASDAQ in 2000.

Oxford Nanopore's technology offers two advantages over conventional alternatives. Its compact size is a key differentiator that enables field

analysis, circumventing the need to send samples to a laboratory.

Another distinguishing feature is its speed. Conventional DNA sequencing technologies are time consuming and involve the use of chemicals to identify sliced DNA fragments. The current record for sequencing an entire human genome is 13 hours. Oxford Nanopore believes it can reduce this significantly to a handful of hours.

DOES IT MAKE MONEY?

The group is currently loss-making. Last year it recorded losses of £73 million on revenues of £114 million. It hopes to become profitable within five years.

The success of the group is contingent upon the growth in the market for gene sequencing. Julian Roberts, an analyst at Jefferies, estimates the global market to be worth \$7.5 billion a year. The rapid decline in the cost of real-time gene sequencing is likely to engender new uses,

which would augment growth.

Shares in Oxford Nanopore were priced at 425p for its IPO and the price surged by 44% on its 30 September London market debut to 612.6p, pushing the market capitalisation to £4.3 billion. After a small dip in the second week of October, the they've since moved up to 620p.

This successful start as a listed company provides an encouraging indication regarding the future vibrancy of the London equity market.

The firm decided to list in London rather than America which runs counter to conventional thinking. This suggests the UK offers a more educated investor base, increasingly aligned to the needs of life science and technology companies. Chief executive Gordon Sanghera maintains that Oxford Nanopore went through a 'thorough and rigorous process before choosing London'.

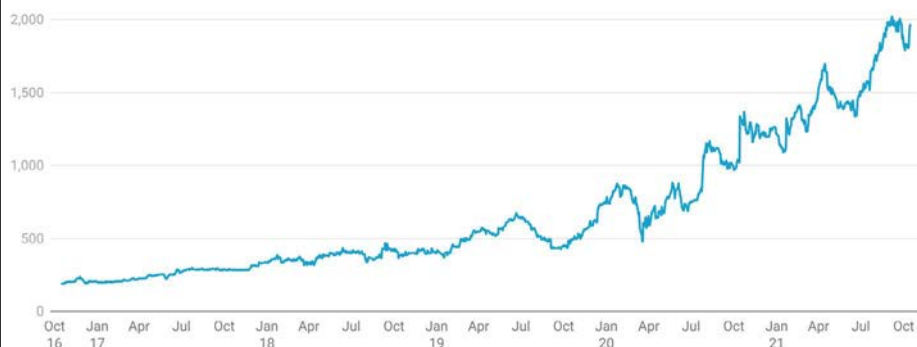
The success of Oxford Nanopore's IPO may encourage other biotech firms to follow suit and will assist the UK Government's recent attempts to woo British life science and technology companies to list in the capital.

DYNAMIC DATA

Made Tech, a provider of digital, data and technology services to the UK public sector, is another example of a dynamic high growth company that has taken the decision to list on the UK stock market.

The company joined AIM on 30 September, raising £85.4 million at an issue price of 122p. The shares have since risen 13%

Kainos



Source: Refinitiv • Created with Datawrapper

to 138.1p. It's very similar in nature to **Kainos (KNOS)** whose share price has risen by 934% over the past five years.

Made Tech's clients include a multitude of government agencies. These include the DVLA, where it is working on services for provisional driving licences, and HMRC which has employed Made Tech to assist with its multi-channel digital tax platform.

Half of the six highest spending 4K government organisations like The Ministry of Justice are clients. Made Tech also works with local authorities like the London Borough of Hackney where it is helping to improve a range of housing services for staff and residents.

The group has achieved 89% compound annual revenue growth over the last three years. The nature of the government contracts provides long-term visibility, characterised by sticky repeatable revenues.

KEY FOCUS

Made Tech works in three primary areas: digital services, legacy modernisation and embedded capabilities, the latter involves going into organisations and helping to

modernise the skills that exist and the ways of working.

The opportunity in the market for Made Tech is based around the UK Government's desire to change the way citizens interact with the state. This is being driven by the digital transformation of services.

The UK Government is becoming a more intelligent buyer and is acquiring technology from a new breed of technology supplier. Made Tech is a key beneficiary of this process and believes there are significant opportunities in the health, local government and defence sectors.

The IPO has provided capital to execute on the group's growth plan that involves opening new locations and bringing new services to market. Longer term the group is considering international expansion.

The corporate governance and associated scrutiny associated with being a public listed company should provide customers with increased comfort about buying its services.



By **Mark Gardner**
Senior Reporter

A photograph of two hikers in a lush forest. In the foreground, a man in a green t-shirt and a backpack looks off to the side. In the background, another hiker in a blue shirt is visible near a waterfall. A blue rectangular box is overlaid on the right side of the image, partially covering the hiker in green.

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How much does the average family spend a month - and which bills are rising?

We break down the figures and reveal how much extra you might soon have to pay

The news headlines state price rises and a difficult winter ahead. Gas prices have risen significantly, pushing up energy bills, while supply chain issues are said to be pushing up prices at supermarkets. But how much does the average family spend each month and which areas are going to see rises soon?

On average, a household in the UK spends £587.90 a week – or £2,528 a month. Clearly there will be big differences in this figure, depending on the income of the family and living costs in their area of the UK, but for the purposes of this article we'll stick to averages.



HOUSING COSTS

The biggest bill for most households will be keeping a roof over their head. The median cost of rent in England was £730 a month, based on April 2020 to March 2021, which is the highest ever recorded. Clearly this varies massively across regions, with London at £1,430 and the north-east at £500.

The tax regime for landlords



has become increasingly tougher, and many have passed those costs on to renters. At the same time, some have used recent house price rises as a catalyst to sell up, so there is less supply.

The cost of mortgages is harder to gauge. Mortgage interest rates are at all-time lows and the cost of borrowing is incredibly cheap. However, this has gone hand in hand with price rises in the housing market, pushing up the cost of most properties. It's expected that interest rates will rise in the next year, meaning the cost of borrowing will rise too.

VERDICT: RISING



FOOD SHOPPING

The average household spends £274 a month on food and drink, and another £56 on alcohol and cigarettes. This

total cost makes up a larger proportion of spending in poor families than wealthier ones.

We're already seeing food price inflation: in July food prices rose by the largest amount since August 2008. We're hearing lots of businesses report supply issues, and there has been increased costs for HGV drivers, which may be passed on to consumers. Also, energy prices and petrol prices are going up, which all must go somewhere.

VERDICT: RISING



ENERGY BILLS

The average cost for a family on a standard tariff was around £108 a month for gas and electricity, before the recent price rise. It would have been lower if you've got a fixed-rate deal, but higher if you have a large household and

your usage is higher. Those on pre-payment meters will pay more too.

Everyone knows energy prices are rising; the energy price cap has already meant prices have risen £140 a year and when the next energy price cap comes in (April 2022), it will rise again. Some have put that increase at £400. Anyone who is currently on a fixed-rate deal that's expiring soon will see a big price rise.

VERDICT: RISING (UNLESS YOU'VE ALREADY FIXED FOR A LONG TIME)



WATER

Water UK estimates that the average household pays £33 a month, but it depends how much you use and whether you have a meter or not.

Prices dropped marginally this year and are unlikely to rise significantly in the coming months. Also, you can easily reduce your usage and bills if you're on a meter.

VERDICT: NOT RISING



COUNCIL TAX

The average band D council tax bill in England is £1,898 a year, or £158 a month.

This has risen by an average of £7 a month this year already, and more rises are expected. Councils are having to deal with the cost of the pandemic and now the additional cost of the social care plans announced by the Government last month.

The IFS has predicted a potential increase of around £240 to average council tax bills in the next few years if more central Government funding isn't given to local authorities, and even its best-case scenarios see an extra £160 added to bills in the next few years.

VERDICT: RISING



TRANSPORT COSTS:

The average person spends £66.31 a month on their commute, whether by road or rail, according to Lloyds Bank. This rises to £76.50 for Londoners.

For motorists, the oil price is rising and so petrol prices are going up (even aside from recent crisis). There is also the potential for a tax rise as fuel duty has been frozen for the past 11 years, which the Government may end in the Budget later this month.

For those commuting by train, there is a near-4% increase in rail fares from January for season ticket holders and some other ticket types. Train companies lost a

lot of money in the pandemic so will be trying to make some money back.

VERDICT: RISING



CHILDCARE

For families, one of the biggest costs is childcare – higher than mortgage or rent costs for some. The average cost for 25 hours of childcare for under 2s is about £600 a month, where a full-time space for an under-2 in nursery is just over £1,100 a month, figures from Coram Family and Childcare's annual survey show.

Again, this varies dramatically according to the region you live in, rising to almost £1,400 for a full-time place for a child under two in inner London.

Parents are paying 4% more for childcare for children under two, and 5% more for children aged two and over than they were a year ago, according to data from March.

The Covid crisis hit many nurseries as they had to temporarily shut. Some have now closed permanently, reducing supply in the market, which usually pushes up prices. What's more, childcare costs have risen steadily in recent years and there's no sign of that stopping.

VERDICT: RISING



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

40

Celebrating 40 years of delivering shareholder value

ICG Enterprise Trust celebrates its 40th year of offering unique access to private companies. Over the last five years it has generated a 16%* annualised NAV per share total return, demonstrating the benefits of investing in private markets for the long-term.



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Oliver Gardey, Head of Private Equity Fund Investments

* Five years to 31 July 2021

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Just how does the lifetime allowance work?

Our expert explains that the limits apply to the amount amassed in a pension not just contributions

Mr A (aged 50) starts a SIPP with £10,000 and does not make any further annual contributions over the next 10 years into the SIPP or any other pension, and the value of that £10,000 grows to, say, £1 million, how would the £1 million pension fund be assessed against the lifetime allowance?

Would Mr A have only used £10,000 of his UK lifetime allowance even though that £10,000 has grown to £1 million? And for the 10 years Mr A did not make any annual contributions how can he, if possible, make up the contributions that he would have been allowed annually?

Mr Gill



Tom Selby
AJ Bell Senior
Analyst says:

The UK lifetime allowance is currently set at just over £1 million (£1,073,100 to be exact). Chancellor Rishi Sunak announced in his March 2021 Budget the allowance would be frozen at £1,073,100 for the remainder of this Parliament until 2025/26.

You use up a portion of your available lifetime allowance each time a 'benefit crystallisation event' takes place. These events include taking your pension tax-free cash and choosing a

retirement income route (such as drawdown or buying an annuity).

The scheme administrator will test how much is held in your pension pot when a benefit crystallisation event occurs, rather than how much has been contributed. In other words, the test covers both how much is paid in and any investment growth the fund enjoys.

So, to use your example, if someone contributes £10,000 into a pension, the fund grows to £1 million and then they choose to take their 25% tax-free cash and invest the remaining 75% in drawdown, two benefit crystallisation events will occur:

- Taking 25% tax-free cash (£250,000);
- Investing the remaining £750,000 in drawdown.

Based on the current lifetime allowance of £1,073,100, these two benefit crystallisation events will therefore use 93.19% of their available lifetime allowance.

The pensions annual allowance, which sets the amount you can save in a pension each year, is £40,000. If you haven't made the most



of all your annual allowances in recent years, it is possible to 'carry forward' unused allowances – although only from the previous three tax years.

This means that, when used to its maximum, and based on certain qualifications, in 2021/22 you could boost your annual allowance to £160,000 (using first your £40,000 annual allowance for 2021/22, plus three times £40,000 annual allowances from the three previous tax years).

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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INVESTING INVOLVES RISK. THE VALUE OF AN INVESTMENT AND THE INCOME FROM IT MAY FALL AS WELL AS RISE AND INVESTORS MAY NOT GET BACK THE FULL AMOUNT INVESTED.

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Global Investors

Electra break-up could offer big upside

Selling off assets to be run independently can often unlock value by removing the 'conglomerate discount'

Private equity trust **Electra (ELTA)** is entering the final stretch in its strategy to sell off assets, which include controlling interests in **Fridays** (74% of NAV (net asset value)) and **Hotter Shoes** (10% of NAV).

Fridays (formerly branded **TGI Fridays**) is an iconic American themed restaurant and cocktail bar, while **Hotter Shoes** is a digitally-led shoe manufacturer with a focus on customised comfort.

The trust has announced plans to demerge **Fridays** and list it on the main market, with trading due to start on 2 November for the the parent company **Hostmore**. The new entity will include **63rd +1st**, a new city-based cocktail-led bar and restaurant brand.

Subject to shareholder approval, **Electra** will cease to be an investment trust and relist on **AIM** as the parent company for its remaining corporate asset, **Hotter Shoes**, renaming itself **Unbound Group**.

Electra estimates shareholders will experience a single-digit dilution after it relists on **AIM**, meaning shareholders will own slightly less of **Unbound** than they do currently.

Investors in **Electra** who decide to hold onto their shares will end up with shares in the two separately-listed entities.



Electra valued the two businesses at £146.2 million and £19.2 million respectively at the half year results in May, reflecting values estimated at 31 March, before the reopening of hospitality.

If **Hostmore** was spun-out at the latest valuation held on **Electra's** books (£146.2 million), **Electra's** market capitalisation would fall by that amount following the listing.

IS THERE VALUE IN HOLDING ONTO ELECTRA SHARES?

The trust's shares trade at a premium to NAV, implying the potential value of the two remaining businesses could attract higher market values when they trade separately.

Before looking at the fundamentals of the two businesses it's worth pointing out that academic research shows spin-offs and demergers have historically delivered better than market returns to shareholders.

Since management last valued the businesses, there has been a strong rebound in economic activity and the hospitality has re-opened.

We already have a good idea of the magnitude of the rebound thanks to positive trading updates from the likes of all-day bar/restaurant operator **Loungers (LRGS:AIM)** and **Wagamama** owner **Restaurant Group (RTN)**, with both

Electra Private Equity (ELTA)

Price: **596p**

Market Cap: **£236.2 million**

Premium to NAV: **15.9%**

Net asset value per share:
514.3p at 31 March 2021

Source: **Electra**

companies flagging significant pent-up demand.

Hostmore itself saw a return to pre-pandemic levels of trading for the 16 weeks from 17 May after indoor dining was permitted, ahead of the underlying market according to the Coffey CGA business tracker.

The company reported like-for-like sales growth of 11% for the period compared with 2019 while in the seven weeks after all restrictions were lifted on 19 July like-for-like growth accelerated to 12.1%.

That said, management's £146.2 million valuation of Hostmore is close to the £141.4 million it placed on the business in 2019 before the pandemic.

But, as ever, investors are more concerned about future growth and profitability. As it happens, management has provided a range of scenarios for revenues and earnings.

The base case assumes no revenue growth or market share gains, but due to operational efficiencies and cost savings made under new management earnings before interest, taxes,

depreciation and amortisation or EBITDA increases 28% to £32.7 million.

With a risk of regional virus flareups and restrictions lingering in the background, that may seem prudent. But as management point out there is also a good opportunity for growth given the significant reduction in capacity in hospitality over the last 18 months.

Under the most optimistic scenario, Hostmore could deliver 10% like-for-like revenue growth which bolsters EBITDA by 61% to £41.3 million.

PEER GROUP ANALYSIS

When Hostmore begins trading investors will naturally want to compare its valuation and prospects to other firms in the sector.

A common way to compare companies is to look at the ratio of EV or enterprise value to EBITDA, which compares the value of a business to its cash flows. Enterprise value represents the total value of a company including market

capitalisation and debt.

According to Electra, the latest net debt figure for Hostmore was £36.4 million in August which added to its £146.2 million market cap gives an EV of £182.6 million.

This means Hostmore will trade on a forward EV to EBITDA ratio of between 5.6 times using the base case EBITDA number and 4.4 times under the best case scenario, which looks unusually low against its peer group.

Using historical EBITDA Hostmore would trade on a ratio of seven times, that is an EV of £182.6 million divided by £25.6 million of cash flows.

Research firm Edison estimates a peer group comprised of Loungers, Restaurant Group and Franco Manca operator **Fulham Shore (FUL:AIM)** trades on an average EV to EBITDA multiple of 13 times, implying significant upside for Hostmore shares post demerger.

HOTTER SHOES (UNBOUND GROUP)

Hotter is the UK's largest shoe

Electra scenarios for Hostmore

	2019	No Growth	5% Growth	10% Growth
Revenues (£m)	215	227	238	249
EBITDA (£M)	26	33	37	41

No growth has higher revenues due to full year contribution from new store openings

Source: Electra Company Accounts • Created with Datawrapper

manufacturer, known for its product quality and innovation. The brand has historically targeted the female over 55's segment but the firm has plans to widen its reach and appeal by offering mens' shoes and other lifestyle and wellbeing products.

New management have turned the business around and today 81% of its revenues come from direct to consumer sales via online channels, while it still operates around 20 physical outlets.

In the six months to July the business achieved 39% year-on-year revenue growth, yet management's base case of 10% sales growth equates to just £64.6 million of revenues and £7.3 million of for the full year.

That implies an EV to EBITDA multiple of 4.3 times assuming a market value of £19.2 million and

net debt of £12 million, and an historic multiple is 5.8 times.

By comparison, Shoe retailer **Shoe Zone (SHOE:AIM)** trades on an historical EV to EBITDA ratio of 11 times according to Stockopedia.

OPPORTUNITY KNOCKS?

While there are risks to owning consumer facing businesses in the current environment, there appears to be a credible case for owning Electra's shares ahead of the final break-up of the company.

Sceptical readers may reasonably ask why such an experienced management team would value its businesses so lowly, and we can think of two possible explanations.

First, both Hostmore and Unbound have recently been restructured and have new

management teams, so the case could be made that if the firms were already publicly quoted, they would trade at a discount to peers, to reflect short-term uncertainty.

Second, Electra's management may have taken a conservative approach to valuing the businesses to give more scope for future NAV uplifts, once the businesses have been de-risked.

Valuation isn't an exact science and risk appetite varies among different investors. In theory at least, publicly traded companies should be valued at a premium to private companies because they offer investors liquidity.



By **Martin Gamble**
Senior Reporter

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The long-term trends driving Japan forward

The highly experienced team at J.P. Morgan think three key themes could generate consistent returns for investors in the region in the years to come...

The tumult of the markets in the last two years has prompted many managers to reshuffle their portfolios. For some, this has involved adding new themes, while for others, it has meant moving away from old ones.

While there is some merit to responding to global events, for managers who claim to invest for the long term, sticking to their guns through such uncertain times can be a valuable reinforcement of their investment philosophy and approach.

So, what counts as truly long term? One trust that embodies long-term investing, holding decade-long investments, is **JPMorgan Japan Small Cap Growth & Income (JSGI)**.

Its Tokyo-based portfolio management team, led by Eiji Saito, assigns stocks a valuation based on expected returns over five years, which is roughly the portfolio's average holding period. Here, we discuss some of the portfolio's themes, the long-term case for them, and some of the stocks that the managers have identified within them.

BUSINESS DIGITALISATION

The great corporate migration online has been an ongoing trend in markets around the world for some time. Yet, in Japan, there is still significant progress to be made, which has prompted the team to invest in several names driving digital working practices over the last few years.

One such example from the JSGI portfolio is Money Forward, which supplies accounting software to Japanese businesses. This type of software has half the penetration in Japan that it has in the UK and US, showing how much room there is to run for the business' growth. Over the last year (to 22/09/2021) alone, the company's share price has risen 122.5%.

Of course, like their peers around the world, Japanese employees have been forced to work from home repeatedly through the last 18 months due to successive local lockdowns. This has helped drive adoption of some of the business digitalisation names even faster than anticipated. JSGI invested in Hennge, a digital identification and access management service, for the

first time in 2020. Covid has highlighted how much Japanese companies need to invest in their software capabilities, so there is a tremendous growth runway in the manager's view.

DEMOGRAPHIC SHIFTS

The demographic challenges facing Japan are widely known. A rapidly ageing population is putting pressure on the health system, the economy and society itself. Now that similar challenges are emerging in other developed economies, Japanese solutions to these problems could become world-leading.

An example within the JSGI portfolio of such an innovative solution is LITALICO. The company has developed solutions that help people with disabilities into paid employment, adding a new segment of employees to the workforce. These solutions include employee training and workplace adaptability guidance. The Japanese Government has mandated the employment of workers with disabilities and therefore we see long-term structural support for LITALICO.

SUSTAINABILITY

Sustainability is an area where the Japanese economy has lagged its counterparts. However, according to portfolio manager Eiji Saito, the sustainability trend in Japan is gaining momentum.

As a result, the team has added renewable energy provider Renova to the portfolio. The company's share price has risen 364.7% in the year to 22 September 2021, reflecting the growing demand for renewables in Japan. We also invest in several companies which benefit from, and contribute to, the accelerating development of electric vehicles, such as Taiyo Yuden, IRISO Electronics, and Nittoku.

LONG-TERM TRENDS, LONG-TERM PERFORMANCE

While past performance is no guarantee of future outcomes, historically the team's focus on longer-term trends has contributed to strong and consistent results from the trust. JSGI has outperformed its peers in four of the last five calendar years and over five years the trust has returned 112.8% in share price terms, against its S&P Japan Small Cap 250 Index benchmark return of 52.26% (to 22 September 2021).

[Click here](#) to read our latest fund research on JPMorgan Japan Small Cap Growth & Income

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UK stocks helping individuals with mental health issues

We look at two companies which support employees and meet the social aspect of ESG

Mental ill health has been moving up the agenda for some time, and now represents the most common medical complaint for UK adults according to a study by not-for-profit healthcare firm Benenden Health.

Illnesses related to mental health including depression and anxiety were the most commonly reported health conditions in the UK during the past two years, with more than a fifth of 25 to 34 year-olds saying they have suffered during this time period, the most of any age group, according to the study.

A LIVE ISSUE

Mental health isn't just an issue for younger people though. Recent research by the Office for National Statistics showed around one in 10 or 10% of the UK adult population experienced some form of depression before the pandemic.

That figure rose to one in five people or 20% of the population in early 2021, and although it has dropped since then it is still fairly elevated at around 17% of the population.

The study also found younger adults and women were more

likely to experience some form of depression, with around one in three (32%) women aged 16 to 29 years experiencing moderate to severe depressive symptoms, compared with 20% of men of the same age.

Of adults experiencing some form of depression, almost three-quarters (74%) reported that the coronavirus pandemic was affecting their well-being; this compared with around one in three (32%) adults with no or mild depressive symptoms.

Many large companies have responded admirably to the rise in mental health issues among their employees, setting up in-house counselling and support, but many mid-sized and smaller companies don't have the resources or the capability to offer these services.



MEETING THE NEED

That's where firms such as **Kooth (KOO:AIM)** and **Personal Group (PGH:AIM)** come in.

Kooth describes itself as 'a digital mental health and wellbeing company working to provide a welcoming space for digital mental health care, available to all' and offers investors the purest exposure to mental health.

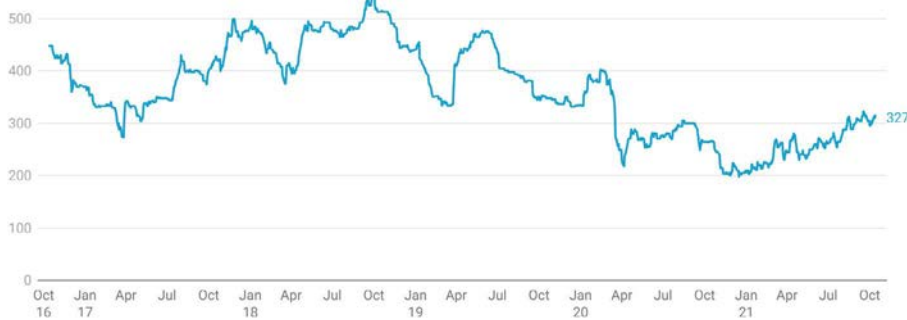
The firm offers a range of early intervention services from self-help tools and community support forums to professional counselling for children and

Kooth



Source: Refinitiv • Created with Datawrapper

Personal Group



Source: Refinitiv • Created with Datawrapper

young people, adults and corporates, all available via its web platform.

The vast majority of its revenues come from its children and young people practice, with over 90% of NHS clinical commissioning groups relying on its services, but the company is building its adult and work practices as employee mental health becomes a priority for companies.

Analysts at Canaccord Genuity believe Kooth can grow rapidly after first half revenues jumped 35% and management assess opportunities in the US, the world's largest mental health market.

LACK OF SUPPORT

One of the most worrying findings of the Benenden Health study was the lack of progress in reducing the stigma associated with discussing mental health, especially in the workplace, with mental health given as the most common medical complaint not discussed with employers across every single generation.

'Among their concerns, workers cited that they feared people thinking they wouldn't be able to do their job, that they would be talked about and that ultimately it might cost them

their employment,' the report explains.

In fact, twice as many respondents were worried about the potential impact of poor mental health than were worried about cancer.

BROAD-BASED BENEFITS

Personal Group provides employee benefits and wellbeing services as well as employee focused healthcare plans to 'protect the unprotected and connect the unconnected' in the words of chief executive Deborah Frost.

Through its customisable 'Hapi' platform it offers firms a way to support their staff inside and outside of work with products that meet their physical, financial, mental and social needs.

In terms of mental and physical health, members have access to a call-line, online webinars and health advice, development programmes and regular health check services.

They can also speak to expert counsellors if they are going through difficulties and access on-demand GP appointments where the expert can diagnose and prescribe treatment if necessary.

For employers, the group



provides up to date advice and insight into all aspects of wellbeing in order that they can support their employees.

GOOD SENSE

Without being mercenary about it, putting in place support for mental and physical wellbeing also makes sound commercial sense for companies.

According to insurance firm Zurich, the proportion of income protection claims made by individuals citing mental health problems in the UK more than doubled to 27% last year from 13% in 2019, making it the most common cause of claim.

A recent Department of Health study estimates mental illness accounts for the majority of lost working days every year – around 18 million – and costs the UK economy more than £100 billion in lost output, the direct cost of services and a reduced quality of life.

Moreover, the cost to the NHS of treating mental ill health is expected to double in real terms over the next 20 years, whereas some of this could be reduced by greater prevention, early diagnosis and intervention.



By Ian Conway
Senior Reporter



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Trustpilot must prove up its potential for profits

The stock has shone since listing in London but that is not yet reflected in the bottom line



It may not go near the performance of nascent cyber security star **Darktrace (DARK)** but investors piled in to **Trustpilot (TRST)** after shares in the online reviews platform began trading on the London market in March 2021.

Retail investors were unable to participate directly in the IPO (initial public offering) so there was a ready army of willing

buyers poised to pounce. And pounce they did, initially anyway, sending the stock soaring 11% early on its market debut, although the stock ended its first day flat.

The Denmark-based digital reviews and analytics platform had earlier priced its IPO at 265p a share, valuing the business at £1.08 billion.

Like many digital commerce

businesses, Trustpilot's business grew rapidly during the pandemic. The platform hosts more than 144 million consumer reviews of products and businesses that cover around 626,000 web domains. It had 21,000 paying customers at 30 June 2021 and is adding more than 15,000 new domains every month on average, according to chief executive and founder Peter Holten Muehlmann.

ON A RAMPANT GROWTH CURVE

Trustpilot has certainly seen rapid growth in recent years. The company claims compound average revenue growth of 30% a year between 2015 and 2020, and 'high retention rates' from its software subscriptions model, which implies that most of any year's revenue comes from customers who subscribed in previous years. Customer retention rates ran at 97% in the first half this year.

Revenue went from \$64.3 million to \$102 million in the past two years, while adjusted earnings before interest, taxes, depreciation and amortisation swung from a \$21.5 million loss to a \$6.1 million profit.

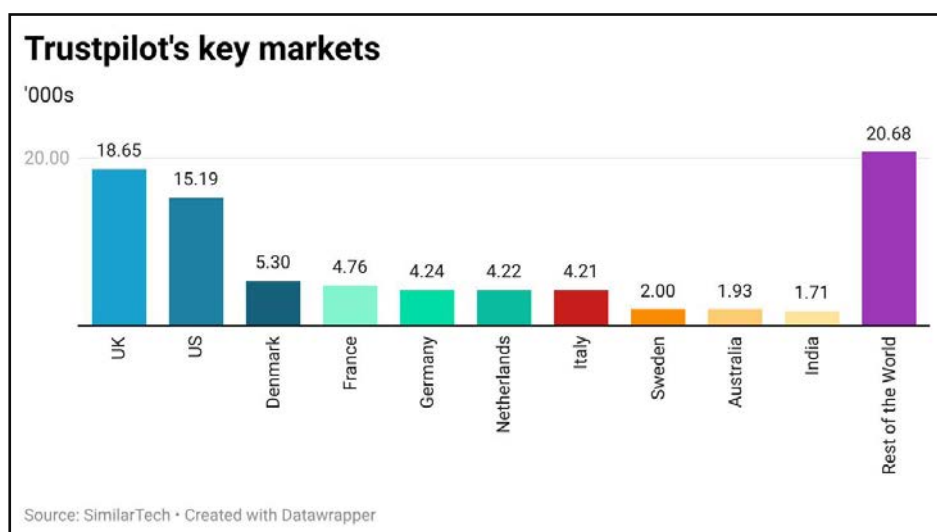
Berenberg forecasts the company will generate a modest net profit of \$11 million in 2023.

The key to Trustpilot's

Trustpilot's profit projections

	Revenues \$m	Earnings per share \$
2023	208.9	0.66
2022	163.4	0.00
2021	130.0	-1.45
2020	102.0	-1.10

Source: Refinitiv consensus • Created with Datawrapper



future will be its success at becoming the home for reliable and valuable opinions about businesses, brands and services and tapping the network benefits.

The more consumers that use the platform and share their own opinions, the richer the insights the company can offer clients and the more opportunities they will have to earn the trust of consumers from all around the world.

Done well, this creates a virtuous circle where consumers feel drawn to Trustpilot because it is where meaningful services are listed and reviewed, and the more consumers that use Trustpilot, the more businesses will feel they cannot afford not to

be on the platform.

This network effect is how **Autotrader (AUTO)** and **Rightmove (RMV)** have come to dominate car and home buying markets respectively.

FURTHER POTENTIAL

The growth runway for Trustpilot looks extensive. According to a Cavas8 report released in 2020, 89% of consumers in the UK, France and the US checked reviews online before making a purchase. Trustpilot operates in more than 100 markets covering industries from beauty to beds, fashion to finance, technology to travel.

According to Alexa February 2021 rankings, Trustpilot sits among the top 0.0001% of most visited websites worldwide. The long-term total addressable global market opportunity, excluding China, has been estimated at \$50 billion, albeit based on a study commissioned by Trustpilot. The current market is estimated at \$6.3 billion, so even if \$50 billion is over-egged, there is still huge scope for expansion.

Funding this growth potential won't be a problem. At 30 June 2021 the company had net cash

of \$91 million and no debt. In the first half this year it burned through \$12 million worth of cash, although IPO costs were a large part of that which won't be repeated.

CHALLENGES TO MANAGE

That said, potential investors should not expect Trustpilot to have the market to itself. Competition comes from several directions with New York-listed Yelp perhaps the best point of comparison. It has significantly larger revenues, forecast at more than \$1 billion this year, and had been profitable for three years straight pre-pandemic.

Trustpilot also has a long-run battle on its hands to prevent dodgy reviews that give consumers a bum steer. The BBC's *Watchdog* programme ran an investigation on Trustpilot in 2019 after receiving consumer complaints that its reviews cannot always be relied on.

The company launched its own investigation after discovering 'suspicious patterns' and while Trustpilot can be expected to chase down abuse where it can, it may not always be able to verify the content.

Serious failures could damage Trustpilot's brand and significantly impact the share price. *Shares* would like to see more evidence that Trustpilot can manage these challenges and build a reliable stream of profits for shareholders before we'd be willing to recommend the stock to our readers.



By **Steven Frazer**
News Editor

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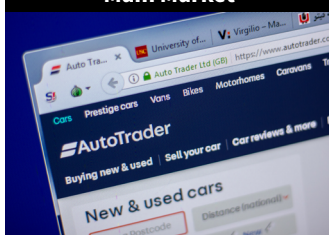
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Half-year results

25 Oct: DP Poland. **26 Oct:** e-Therapeutics. **27 Oct:** Bloomsbury. **28 Oct:** Airtel, C&C.

Trading updates

22 Oct: InterContinental Hotels, National Express, Record. **25 Oct:** HSBC. **26 Oct:** Reckitt Benckiser, RWS. **27 Oct:** GlaxoSmithKline, Contour Global. **28 Oct:** Gem Diamonds, Helios Towers, Hunting, Inchcape, Indivior, Lloyds, PPHE Hotel, Royal Dutch Shell, Totally. **29 Oct:** Evraz.

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Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.

Company Registration No: 3733852.

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