STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 23 / ISSUE 43 / 04 NOVEMBER 2021 / £4.49

SHARES

WE MAKE INVESTING EASIER

BEST IN CLASS:

Funds and investment trusts with **stamina** and **strength**

EXCLUSIVE INTERVIEW: Hedge fund manager Bill Ackman on his investment in Universal Music

Contents

CFA UK Publication of the Year CFA UK Journalism Awards 2019

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

05	EDITOR'S VIEW	Why it's so tricky to run a bank
06	NEWS	Stocks which could benefit from COP26 / Tech giants Apple and Amazon facing crucial Christmas pinch / Greggs claims £100 million from Swiss insurer for 'business interruption' / Third Point posts near-30% returns and reveals Royal Dutch holding / Is there substance behind Facebook's rebranding as Meta?
12	GREAT IDEAS	**New:** Alliance Trust / Luceco **Updates:** GlaxoSmithKline / Chemring / Coca-Cola
18	FEATURE	Best in class: Funds and investment trusts with stamina and strength
25	FEATURE	Bill Ackman on the market outlook and his big bet on music
29	INVESTMENT TRUSTS	Say yes to Scottish Investment Trust merger with JPMorgan
31	FEATURE	Games Workshop feels the wrath of its fan base
33	EDUCATION	Why the opening price of a share can be different from the previous close
34	FEATURE	Water: the investment theme which is bubbling up nicely
38	ASK TOM	Can I protect my right to claim a pension at 55?
40	PERSONAL FINANCE	Reached the 45% tax threshold? How to reduce your investment tax bill, legally
43	RUSS MOULD	What the bond market is telling investors
47	INDEX	Shares, funds, ETFs and investment trusts in this issue


SCOTTISH MORTGAGE INVESTMENT TRUST
We invest in profound change, disruptive technologies and big ideas.
Not just the stock market.
We don't see **Scottish Mortgage Investment Trust** as simply trading stocks on the world's markets. We see our role as seeking out those genuinely innovative businesses that are shaping the future. We call it investing in progress. And by using our skills as actual investors, not simply stock traders, we believe we can deliver strong returns for your portfolio.
Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.
Find out more by watching our film at scottishmortgageit.com
A Key Information Document is available. Call 0800 917 2112.
BAILLIE GIFFORD
Actual Investors

Why it's so tricky to run a bank

The sector is kept on a tight leash by the regulators and even higher rates aren't all good news

Is there a harder job in the corporate world than managing one of the UK's big four banks? **Barclays' (BARC)** current head of global markets CS Venkatakrishnan, or Venkat, for short is about to find out – subject to regulatory approval.

Those last four words sum up the situation the sector has found itself in ever since the financial crisis of 2007/8 – with the relevant authorities minded to keep them on a tight leash. See, for example, their inability to pay dividends during the pandemic in case Covid-19 put a material strain on their balance sheets.

That should not necessarily invite sympathy. The banks invited such a situation on themselves through their behaviour in the run up to the credit crunch which resulted in all of us, as taxpayers, having to come to their rescue.

Notably **Lloyds (LLOY)** and **Natwest (NWG)**, the two recipients of state bailouts, have performed significantly worse than their counterparts Barclays and **HSBC (HSBA)** since the beginning of 2007.

While the predicament departing Barclays CEO Jes Staley found himself in, facing a FCA (Financial Conduct Authority) and PRA (Prudential Regulation Authority) probe into links with the disgraced financier Jeffrey Epstein, might have rendered his position untenable at any company, there is no doubt that being at a bank means the glare of publicity and the attention of regulators goes up a notch.

RATE RISE RISKS

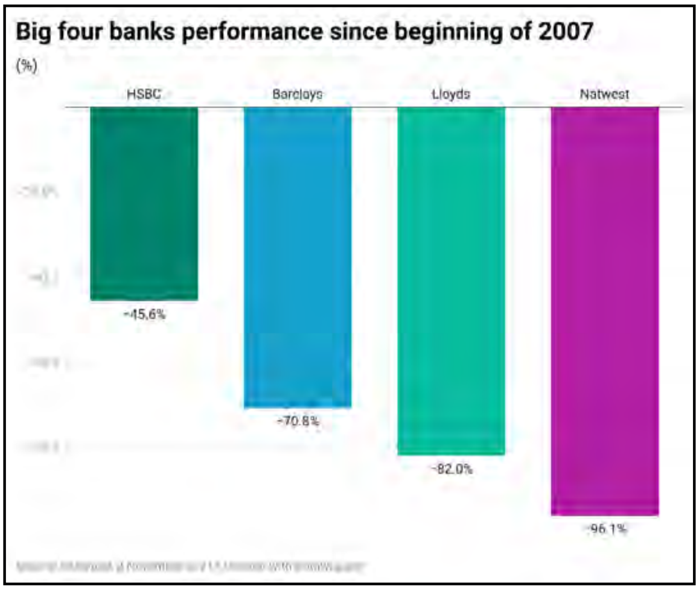
In theory the backdrop for the banks looks likely to improve, with management teams able to look forward for the first time in a long time to higher interest rates. The Bank of England may even have raised rates today (4 Nov) but is certainly lining up a rate rise before the end of 2021.

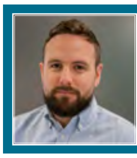
This should enable the sector to increase the amount it charges for lending to businesses and consumers and thereby boost its returns.

However, those in charge at the banks have to balance the temptation to take advantage of this opportunity with several reputational, political and financial risks.

If the banks go too far and too fast with their lending rates, particularly on products like mortgages, the politicians may well exert pressure on the industry as they look to salve the concerns of homeowners already facing a cost of living crisis.

Perhaps even more pertinently, putting too much pressure on customers risks a wave of bad debts which would clearly have very negative implications for their profits and balance sheets. Or, in other words, life just doesn't get any easier in the boardrooms of Britain's banks.





By **Tom Sieber** Deputy Editor

Stocks which could benefit from COP26

While scepticism is high some areas have enjoyed strong gains ahead of the summit

CC-BY-4.0: © European Union – Source: EP

Politicians are known for expressing well intentioned platitudes regarding climate change but failing to deliver action as climate change activist Greta Thunberg has so often highlighted.

Ahead of the 26th climate conference in Glasgow which got underway on 31 October, investors seem as sceptical as ever over real change and appear instead to have placed bets on increased demand for uranium (to fuel nuclear power) and more funding for energy efficiency.

In other words, governments might need to fall back on traditional technologies as a backstop to support their long-term emissions targets. This implies a greater role for nuclear energy and could explain why share prices of uranium stocks and exchange traded funds have been so strong ahead of the conference.

For example, shares in uranium fund **Geiger Counter (GCL)** have surged 77% since the middle of August while Uranium trader **Yellow Cake (YCA:AIM)** shares are up 40%. Meanwhile the US-listed ETF (exchange-traded fund) Global X Uranium Fund is around 65% higher.

A more diversified green energy ETF option is **Legal and General Battery Value Chain (BATG)** which is up around 18% year-to-date.

Popular actively managed funds in this space include **Guinness Sustainable Energy (B3CCJ63)** and the **Pictet Clean Energy (B516829)** with both holding shares in US nuclear plants operator Nextera Energy.

Despite past disasters like Chernobyl in 1986 and Fukushima in 2011, it looks like the UK government will embrace nuclear energy as part of its net zero roadmap.

In the recent Autumn budget, the chancellor confirmed he had targeted £1.7 billion of investment in the Sizewell C power plant, with the taxpayer shouldering the burden through a levy on energy bills.

Investors may be sceptical of big break throughs emanating from COP26 but there are expectations of possibly big spending plans to upgrade infrastructure and make our homes and offices more energy efficient.

Building insulation specialist **Kingspan (KGP)** has seen its shares gain 61% so far this year while shares in US integrated infrastructure and energy efficiency solutions group Johnson Controls have surged nearly 80%.

Meanwhile shares in plumbing and heating distributor **Ferguson (FERG)** are up by around a third.

Energy storage technology is likely to play an increasing role in energy efficiency and one way to play the theme is through the largest investor in energy storage battery systems the **Gresham House Energy Storage Fund (GRID)**.

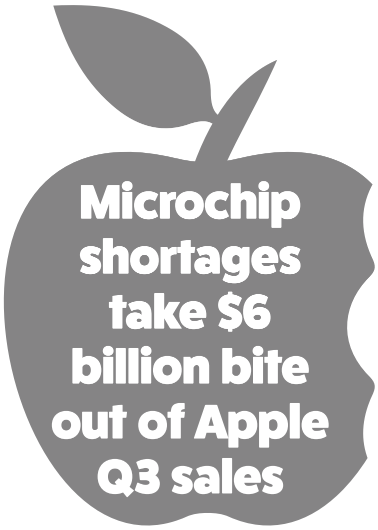
Wind energy plays a big role as a renewable resource in the UK and one way to get exposure to the growing demand is via Danish-based wind energy systems company Vestas Wind Systems, whose shares are around 7% lower year-to-date. [MGam]

Tech giants Apple and Amazon facing crucial Christmas pinch

Microchip shortages, soaring staff and shipping costs combine for bleak holidays run-in

Supply chain woes and rising costs have put investors on alert for a Christmas run-in revenue squeeze for two of the world's biggest companies.

Microchip shortages cost Apple $6 billion in sales in its fiscal fourth quarter to 30 September 2021, which missed Wall Street expectations, and chief executive Tim Cook has warned that the impact will be even worse during the current holiday sales quarter.



Amazon's problems were concentrated in higher input costs as it grapples with staff shortages, higher wages, global supply chain issues and costlier freight and shipping costs. This hurt profit margins in the firm's large online marketplace business as the company forecast a $4 billion rise in costs to meet demand in the fourth quarter.

The holiday period is a big deal for sales of both companies as consumers around the world get into the seasonal present buying mood, but the impact on profits could be particularly acute. Apple earned more than 45% of its annual earnings during the October to December quarter from around 38% of revenue as high-margin iPhones were again a popular gift with consumers.

Chief executive Tim Cook said the company expects year-over-growth for its quarter ending in December, analysts expect revenue growth of 7.4% to $119.7 billion.

Andy Jassy, who took over from Amazon founder Jeff Bezos as chief executive in the summer, indicated that sales could touch $130 billion or $140 billion but operating profit would hit not more than $3 billion this quarter. That would be less than half the 2020 October to December quarter's $6.9 billion.

Amazon's net sales in the third quarter rose 15% to $110.8 billion but net profit of $3.2 billion was about half of 2020's equivalent. Both fell short of estimates although its cloud computing arm, Amazon Web Services, the highly profitable part of the business which competes with other giants like Microsoft and Alphabet, saw sales jump 39% to $16.11 billion.

Both Apple and Amazon shares reversed sharply in the wake of the September quarter forecast misses and bleak holiday run-in projections. Amazon and Apple stocks were trading at $3,318.11 and $148.96 respectively as of Wall Street's close on 1 November, marking a year to date performance of 4% and 15% respectively.

Notably one long-term Amazon-sceptic demonstrated his faith in the business as star fund manager Terry Smith finally added the company to the **Fundsmith Equity (B41YBW7)** portfolio.

He was on record as being a fan of AWS if not the lower margin online retail business, and his decision to buy for his flagship fund perhaps reflects the former's growing contribution to the group.

Smith had arguably already dipped his toe in the water. In August 2021 Amazon was added to the Fundsmith Long/Short hedge fund which was set up to manage his personal fortune. [SF]

Greggs claims £100 million from Swiss insurer for 'business interruption'

Case could prompt a wave of similar claims for Covid-related losses

Food-to-go retailer **Greggs (GRG)** has filed a £100 million legal claim against Swiss insurance giant Zurich for losses it incurred while its stores were closed during the pandemic.

The company argues it is due the money as compensation for 'business interruption' under the terms of its insurance agreement. The claim is significant as if successful it could open the floodgates for other firms to claim against their insurers.

In March, Greggs posted the first loss in its 36-year history after the closure of its shops due to Covid-19. In its results it flagged asset impairment charges and 'onerous shop operating costs' as a result of the difficult trading environment and government-enforced restrictions.

Zurich argues its liability is just £2.5 million under the terms of its deal with Greggs, according to papers filed with the commercial court of the High Court in London.

In January, the UK's Supreme Court dismissed an appeal by a group of insurers including **Hiscox (HSX)** and upheld the position of the Financial Conduct Authority that insurers should pay up for business interruption costs in most cases.

Earlier this week, **Brighton Pier (PIER:AIM)** revealed it had received £5 million in business interruption compensation from its insurers, although it said the payments 'in no way' covered all of the losses it incurred due to the pandemic. [IC]

Third Point posts near-30% returns and reveals Royal Dutch holding

Further upside to come from float of Rivian electric vehicle maker

THE LATEST investor letter from **Third Point Offshore Investors (TPOU)**, showed the activist fund made a 12.5% return in the quarter to September, taking its nine-month gain to 29.5% against 13.4% for the MSCI Total Return World Index.

The firm's biggest gains in the third quarter came from US 'challenger' lender Upstart, which rose 153%, and cybersecurity firm SentinelOne which added 26%. UK insurer **Prudential (PRU)** was another positive contributor following the spin-off of its US business and a successful capital raise in Asia.

Manager Dan Loeb also revealed he had taken a new position in oil major **Royal Dutch Shell (RDSB)** in order to push the firm to spin off its legacy energy business and focus future investment on low-carbon assets while returning substantial amounts of cash to shareholders.

'Pursuing a bold strategy like this would likely lead to an acceleration of CO_2 reduction as well as significantly increased returns for shareholders, a win for all stakeholders', argued Loeb.

Investors can expect a further lift in the firm's value this quarter following the New York listing of Amazon-backed electric vehicle maker Rivian, which is targeting a valuation of up to $60 billion.

Third Point made a small investment in Rivian in 2020 and took what it called 'a more meaningful stake' in July 2021. Shares are expected to list by the year end. [IC]

Is there substance behind Facebook's rebranding as Meta?

Social media giant wants to play a leading role in an augmented and virtual reality future

Market observers are questioning the motivation behind Facebook's decision to rebrand as Meta Platforms.

The more cynical commentators have suggested that the rebranding exercise is little more than an attempt to distract the market from increasing regulatory criticism.

Specific accusations relate to ignoring hate speech, sectarian violence and human trafficking. However there are two other compelling reasons for the move.

TAKING BACK CONTROL

First, Facebook, or Meta, wants to take back control by circumventing the influence that other tech leviathans currently have over the company.

Second, Meta is attempting to establish a lead in what Mark Zuckerberg believes will be the next evolution of the internet, the so-called metaverse.

Irrespective of the real motivation behind the name change, there are plenty of obstacles facing Meta's mission to create an enriched online world.

Mark Zuckerberg, Meta's founder and chief executive, is understandably haunted by his inability to participate in the smartphone revolution.

This in part, explains his real motivation to create a first mover advantage in the metaverse, a series of interconnected worlds that enable participants to interact with digital objects and avatars.

The plan for Meta is for its own role in the metaverse to encompass all of its platforms including Facebook and Instagram.

The short-term success of this play on augmented and virtual reality or VR is contingent upon the widespread adoption of a new high-end VR headset named Project Cambria, which features cameras that pass high resolution full-colour video to the headset's screen.

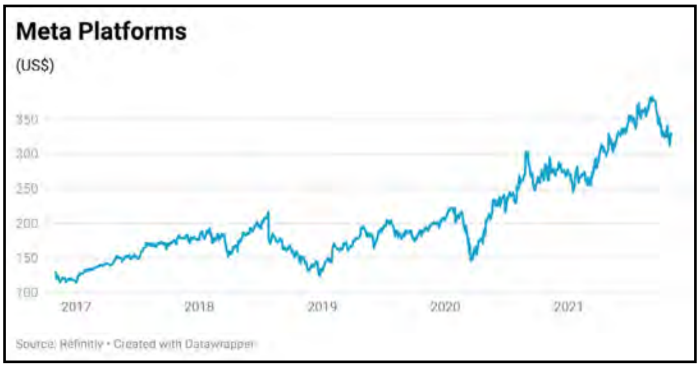
The device is focused on mixed reality applications and will include face and eye tracking. It will be slimmer than existing headsets, and will use sensors and algorithms that help it to reconstruct and augment the world around you.

Meta rolled out two of its metaverse projects last year. The first called Horizon World, enables users to invite friends over into their digital world, by creating a social experience where you can explore and create with others in virtual reality.

Horizon Workrooms is a virtual meeting space where colleagues can work together from anywhere. Users can join a meeting in virtual reality as an avatar, or dial into the virtual room from your computer by video calls.

It also enables participants to bring their computer and keyboard into virtual reality, to work together with others, or just have expressive conversations that feel more like you are together in person. Apps will allow families to play a game together, and could allow an architect to explore a site that is under construction.

In a recent interview with technology newsletter *Stratechery.com*, Mark Zuckerberg suggested that 'by the end of this decade, or even by the middle of the next decade, I guess that we are going to reach a point where our virtual reality devices will start to be clearly better for almost every use than our computers and laptops are'.



THE BENEFITS

If successful Zuckerberg will benefit in three ways. First, there will a massive boost in advertising revenue. Currently ads on Facebook and its other social media platforms account for the vast majority of existing income.

Second, considerable revenue could be generated from a vibrant online shopping business. Users will acquire digital items that will move with them as they move to different destinations within the metaverse.

Third, it will eradicate Meta's current dependence on other large technology providers.

An example of this dependence emerged at Facebook's third quarter earnings, when it revealed that Apple's new policy features were creating headwinds.

However there are multiple obstacles that may stymie Zuckerberg's vision. According to Neil Campling, technology analyst at Mirabaud Securities, the new venture will lose an estimated $7 billion this year, and those losses are expected to increase next year.

Nilay Patel, editor in chief of Verge (a magazine that broke the elusive Facebook scoop and produces gadget and associated technology reviews), shares this sceptical view. 'Facebook are really focused on Oculus, (virtual reality headset), and alternative reality, he says.

'But AR is a really hard problem. You have to build a display that doesn't make you look ridiculous. You have to find a way to power it, you have to put a battery on your body somewhere, you have to find a computer that is fast enough to look at the world around you, and put stuff on top of that that is also small enough to run off the battery. Very challenging.'

THE COMPETITION

Zuckerberg also faces competition from other extremely well resourced technology companies. Microsoft is investing in its own version of the metaverse, with the aim of improving remote meetings.

Online game platform and game creation system company Roblox Corporation, has already launched its own version of the metaverse. This allows gamers to create and host their own game worlds.

And Nvidia, which designs graphic processing units, for the gaming and professional markets is investing in Omniverse. This is an open platform built for virtual collaboration and real time physically accurate simulations.

Meta's disappointing experience with Oculus (the virtual headset business it acquired in 2014) is indicative of another obstacle it faces. Sales were lacklustre due to the lukewarm adoption of virtual reality by non-gamers.

This resulted in the initial advertising partner for the Oculus headset stepping away, following complaints from users who objected to advertising that detracted from their gaming experience.

Perhaps tellingly the Oculus name will disappear as part of the rebranding. [MGar]

Generous income and portfolio protection from Alliance Trust

This global equity trust is an inflation-buster and has lifted its dividend

Investors face great uncertainty given growing inflationary pressures and with many central banks accelerating interest rate tightening plans.

One way to settle the nerves is to put money to work with a highly-diversified fund offering a real return (adjusted for inflation) through a combination of capital growth and a rising dividend.

We think global equity fund **Alliance Trust (ATST)** is an excellent candidate. Helpfully the trust has just reset its dividend to a materially higher level to help you stave off the impact of the 'cruellest tax'.

Alliance Trust's board is drawing confidence from an expected recovery in the income from the underlying portfolio as the global economy reopens and companies resume dividends, as well as the flexibility afforded by its recently enhanced distributable reserves.

ALLIANCE TRUST
BUY
(ATST) £10.42

Market cap: **£3.19 billion**
(Source: London Stock Exchange)

Shares sees Alliance Trust as well-placed to extend an incredible record of annual dividend increases stretching back 54 years, while an ongoing charges ratio of 0.64% (as of December 2020) looks competitive for an actively managed, multi-manager investment trust.

ALL ABOUT ALLIANCE

FTSE 250 constituent Alliance Trust invests in global equities across a range of industries and sectors via a 'manager of managers' approach. Within a single fund, the trust gives investors low-cost exposure to 10 leading equity managers selected by Willis Towers Watson, the manager of the trust, which puts great store in diversification.

Growth of £10,000 over five years

Source: FE Fundinfo, 1 November 2021

These managers run concentrated portfolios of best ideas, and as Investec points out, 'the underlying managers have markedly different, but complementary styles, and the resultant diversification mitigates risk'.

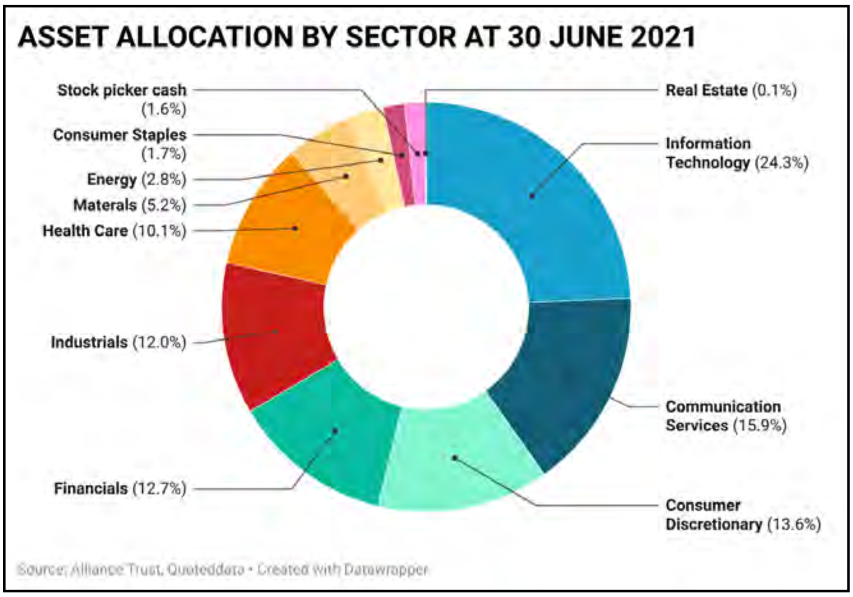
Alliance Trust taps into the stock-picking acumen of managers based in the UK and North America; they range from Jupiter Asset Management, GQG Partners, Sustainable Growth Advisers and Vulcan Value Partners to more recent addition Metropolis Capital.

London-based Metropolis has a value-focused investment style, drawing inspiration from the methodologies of Warren Buffett. It searches for businesses with strong franchises in their particular markets but which have fallen out of favour because of perceived short-term problems or market risk.

Another relatively new manager is Sands Capital, an Arlington, Virginia-based stockpicker which follows a pure growth-orientated philosophy.

Having benefited from an overhaul in 2017, FE Fundinfo data reveal that Alliance Trust has returned a cumulative 89% over the last five years, ahead of the 76.14% returned by the MSCI All Country World Index benchmark.

The trust has turned a £10,000 investment into the best part of £19,000 over that period and the strategy has outperformed during the pandemic too. For the six months to June 2021, Alliance Trust delivered a net asset value total return of 14.8%, comfortably ahead of the 11.1% generated by the benchmark.



In a positive development for income-hungry investors, Alliance Trust has announced (1 Nov) that it now expects to pay a 19.054p total dividend for 2021. The trust's third interim dividend for 2021 has been reset at an increased level of 5.825p, a 62% increase over last year's corresponding payout, with 2021's fourth interim dividend expected to be declared at the same level.

That means Alliance Trust is on track to increase the total dividend for 2021 by a bumper 32.5% versus 2020. Having concluded a review of the level and funding of its payout, the trust's board believes that an increased, yet still sustainable, level of dividend will benefit existing shareholders and enhance the attractiveness of the trust's shares to new investors alike.

From this new level, the trust expects to extend its enviable dividend growth track record for 2022 and beyond. Reassuringly, this materially higher dividend is supported by 'significant' distributable reserves, which amounted to more than £3.3 billion as at 30 June 2021.

Earlier this year, the company was granted court approval to convert its £645 million 'merger reserve' into distributable reserves, so a higher dividend strategy was expected by the market. Alliance Trust will continue to take advantage of the investment trust structure to use both its investment income and distributable reserves to fund dividend payments going forwards.

Despite rallying strongly off the March 2020 Covid lows, Alliance Trust's shares trade at a discount to net asset value, which should pique the interest of value and income investors. The trust is also keen to push its sustainability credentials, having committed to managing the portfolio to achieve net zero greenhouse gas emissions by 2050.

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

Luceco has capacity for sharp margin and share price recovery

Exceptionally run electricals business could rally beyond 500p

Regular readers may recall **Luceco (LUCE)**. It was *Shares*' biggest gainer among our best picks for 2020 after surging 117% during that year. The stock has continued to make money for investors since, up another 45% in 2021, but recent weakness in the share price has created a new opportunity to buy this impressive company.

The Telford-based business supplies a large collection of electrical and wiring products to both retail and wholesale providers, covering industries such as commercial construction, residential housebuilding and housing maintenance.

While most retail investors associate it with its LED lighting business, Luceco's more profitable wiring accessories operation, trading as BG and supplying the likes of B&Q and **Travis Perkins (TPK)**, is the more significant part. It typically runs on operating margins of 25% to 30% and produces roughly 80% of operating profit.

This is a regulated and defensive market with 50%-odd recurring revenues providing safety solutions to large landlords in both new build and repair, maintenance and improvement markets. No one wants to run the risk of electrocuting tenants when they plug the iron or kettle into the mains, for example.

LUCECO
BUY
(LUCE) 371.5p

Market cap: **£621 million**

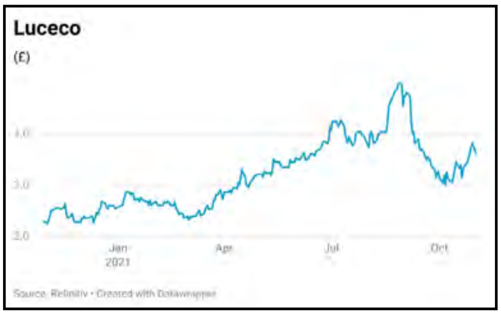
Luceco's wiring accessories business is still largely UK-based, although there is now a useful facility in China, making international expansion one exciting opportunity. Acquisitions represent another, such as last month's £16.9 million DW Windsor deal, bolstering its expertise in exterior lighting and networked solutions.

Like any manufacturer, running costs have been on the rise. Last month the company said that it estimated annual input costs this year have risen by £20 million, or about 15%, due to hikes of between 40% and 70% in the prices of copper and plastic and a five-fold increase in the cost of renting sea containers to transport its products from China.

While inflationary pressures remain hard to predict the company sees them peaking early next year, with pricing initiatives driving the phasing of gross margin recovery through 2022. Importantly, last month's announcement confirmed adjusted operating profit expectations of at least £39 million this year to 31 December 2021, up from £30 million in 2020.

As shown during the Covid outbreak, management run an exceptionally tight ship on costs and cash flow without capping growth opportunities. These latest challenges are largely out of its control yet the stock has been hit hard, losing about 25% since August and pulling the 2022 price to earnings multiple down to 17.

We believe that as these pressures start to ease over the coming months it will spark a marked improvement in sentiment towards the company and its shares, driving the stock back towards 500p highs and likely beyond.



GLAXOSMITHKLINE
(GSK) £15.48

Gain to date: 17.2%
Original entry point:
Buy at £13.21, 5 November 2020

INVESTORS HAVE had to be patient, but a combination of self-help and activist pressure finally appears to be having a positive impact on the **GlaxoSmithKline (GSK)** business and its shares.

Third quarter revenues and adjusted EPS (earnings per share) to 30 September both grew 10% in constant currencies driven by growth across all divisions including consumer healthcare which GSK plans to spin-off around the middle of 2022.

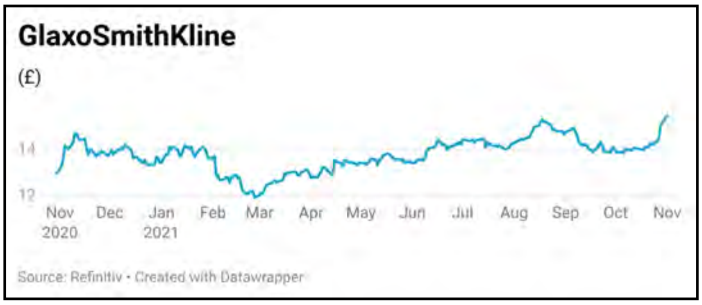
Management consequently upgraded full-year earnings guidance and now expect a decline of between 2%-to-4% compared with a mid-to-high single digit loss previously, excluding contributions from Covid-19 treatments.

The company maintained its full year dividend target of 80p per share and reiterated that it expected a meaningful improvement in revenues and margins in 2022.

GSK recently added more scientific expertise to its board after appointing Harry (Hal) C. Dietz MD, professor of Genetic Medicine at The Johns Hopkins University School of Medicine in the US, as non-executive director.

Increasing scientific expertise to the board was something that activist shareholder Elliot Advisors was pushing for.

The focus now will be on the demerger of the consumer healthcare division in 2022. A recent *Bloomberg* story highlighted keen interest from private equity at a valuation of around £40 billion.



SHARES SAYS: ↗
We remain positive. [MGam]

CHEMRING
(CHG) 298.3P

Loss to date: 5%
Original entry point:
Buy at 314p, 5 August 2021

DESPITE A POSITIVE reaction to defence firm **Chemring's (CHG)** latest update, the shares are a bit below the level at which we made our positive call.

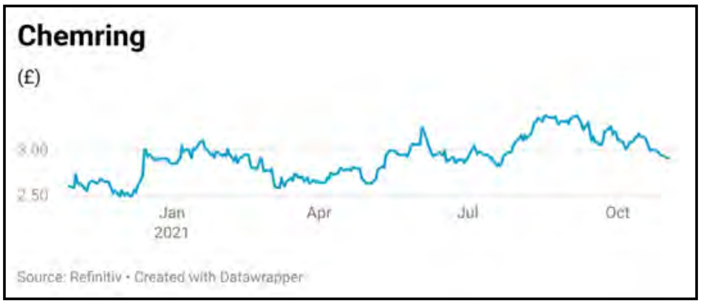
The drift in the share price seems at odds with the company's continued progress. On 2 November it announced its US based subsidiary Chemring Sensors & Electronic Systems had won a $99 million contract from the US Department of Defense.

The full rate production contract was for the Enhanced Maritime Biological Detection system – an advanced sensor system to rapidly detect, collect and identify airborne biological warfare agents.

Chemring Australia, meanwhile, also received a contract modification valued at $20 million. This was in addition to the $22 million contract that was announced on 28 September 2021 and related to the supply of MJU-68/B infrared countermeasures in support of the F-35 programme.

Looking ahead, the company said results for the year to 31 October 2021 would be in line with the board's expectations, with adjusted operating profit expected to come in at £57.5 million.

It is Chemring's underappreciated cyber security business which attracted us to the stock and more detail on this area of the business when full year results are announced on 14 December could give the stock a lift.



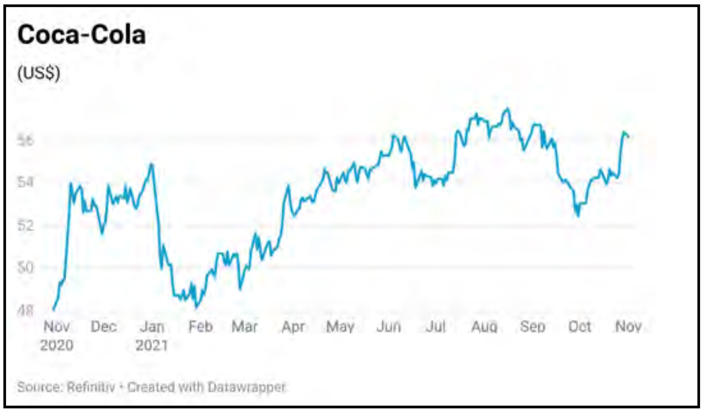
SHARES SAYS: ↗
Still a buy. [TS]

COCA-COLA
$56.17

Gain to date: 15.9%

Original entry point:

Buy at $48.48, 20 July 2020



OUR CALL TO buy Coca-Cola shares last summer continues to look well-timed despite the share price losing some fizz of late.

We think the decision to take full control of sports drink maker Bodyarmor in a $5.6 billion deal, it's largest ever brand acquisition, could add another string to its bow.

Coke already owned 15% of the business but its decision to take a full stake suggests it is poised to step up the battle with rival PepsiCo, whose Gatorade product is the market leader.

The Bodyarmor deal follows a third quarter earnings update which beat forecasts as the company continued to enjoy robust at-home sales but also saw a recovery in out-of-home sales as Covid restrictions were lifted, at least in some geographies.

Earnings per share came in at 65 cents compared with the 58 cents pencilled in by analysts. Despite the strength of its brand it was notable to see Coke ramp up marketing spend, after slashing its budget in this area in 2020 to shore up cash.

SHARES SAYS: ↗
Coke remains an excellent long-term investment.
[TS]

BEST IN CLASS:

Funds and investment trusts with **stamina** and **strength**

'Form is temporary, class is permanent' runs the old adage often used to describe sportsmen and sportswomen, though the maxim can also be applied in the investment industry, where you'll find a cohort of collectives that consistently do the business for their holders.

Funds that routinely outperform over economic and stock market cycles must be pursuing a winning process that should pique the interest of investors. Once you find such a fund, you can feel more confident your hard-earned savings will be delivering stellar returns year in, year out.

While fund factsheets contain one, three and five year performance data, that isn't enough information if you want a more accurate gauge of how a product performs over the longer term. The stock market might have been in a rising trend for that entire period, so it would be easy for an investment collective to also turn in a good performance.

A better way of judging quality is to look at the 10-year track record, as this should include both good and bad times for the market and should help you see how a product performs through the course of a full economic cycle.

With the help of FE Fundinfo, *Shares* has found a group of products we think have the hallmarks of being super-consistent performers. Though there is no guarantee they will always deliver positive results in the future, their track records are so good that they merit further investigation.

Selected top quartile funds over one, three, five and 10 years

Fund	Annualised 10 year return (%)	Sector
Allianz Continental European C	14.3%	Europe Excluding UK
Artemis UK Select I Acc	11.1%	UK All Companies
ASI UK Real Estate Share A Acc TR	12.5%	Property Other
AXA Framlington American Growth Z Acc	18.7%	North America
AXA Framlington Managed Income Z Gross Acc	7.7%	Sterling Strategic Bond
Baillie Gifford Pacific B Acc TR	16.7%	Asia Pacific Excluding Japan
BlackRock Continental European D Acc	15.5%	Europe Excluding UK
BlackRock European Dynamic D Acc	16.4%	Europe Excluding UK
BNY Mellon Multi-Asset Diversified Return B Acc	6.2%	Targeted Absolute Return
BNY Mellon Multi-Asset Growth B Acc TR	11.2%	Flexible Investment
FTF Franklin UK Mid Cap W Acc TR	12.0%	UK All Companies
GAM Credit Opportunities GBP I Acc	9.3%	Sterling Strategic Bond
Invesco Monthly Income Plus (UK) No Trail Acc TR	6.5%	Sterling Strategic Bond
Jupiter Japan Income L Acc	10.7%	Japan
L&G Managed Monthly Income Trust I Acc TR	6.2%	Sterling Corporate Bond
L&G UK Property I Acc	6.3%	UK Direct Property
Liontrust Sustainable Future Managed Growth 2 Acc	14.9%	Flexible Investment
Marlborough European Multi-Cap A TR	16.2%	Europe Excluding UK
Marlborough Special Situations A Acc	14.7%	UK All Companies
Marlborough UK Micro Cap Growth A	17.1%	UK Smaller Companies
Rathbone Ethical Bond Fund R Acc GBP	6.2%	Sterling Corporate Bond
Royal London Corporate Bond M Acc TR	6.5%	Sterling Corporate Bond
Royal London Global Index Linked M Inc TR	4.2%	Global Bonds
Schroder High Yield Opportunities Z Acc	7.4%	Sterling High Yield
Schroder Sterling Corporate Bond Z Acc TR	7.1%	Sterling Corporate Bond
Slater Growth A Acc	14.7%	UK All Companies
Slater Recovery A Acc	13.1%	UK All Companies

Source: FE Fundinfo, 29 October 2021 • Created with Datawrapper

We crunched the data to identify retail funds and investment trusts ranked first quartile (see *Why being quartile counts*) over the one, three, five and 10 year periods to 27 October 2021 from across the entire universe of sectors compiled by the Association of Investment Companies (AIC) and The Investment Association (IA).

Outperforming year in, year out is no easy feat, so we're confident that the funds populating the tables can be considered the best of the best within their respective sectors.

From this list we have identified six collectives – three funds and three trusts – which we think look particularly attractive. These selections are balanced across different parts of the market, different investment styles and different asset classes.

SWEET THEMES

Our filter generated a diversified list of products, though we were able to discern one or two themes from the list. One is the presence of some super-consistent Europe-focused funds that have benefited from their 'quality growth' focus.

These include the £357 million **Allianz Continental European (B3Q8YX9)**, a large cap-focused fund invested in the likes of luxury goods leviathan LVMH, semiconductor equipment maker ASML and world-class health name Novo Nordisk.

Also confounding the perception that the US stands for quality growth stocks, while Europe stands for cheap cyclicals, is **BlackRock Continental European (B4VY989)** or which more later.

Selected top quartile trusts over one, three, five and 10 years

Trust	Annualised 10 year return (%)	Sector
Baillie Gifford Pacific Horizon	20.0%	Asia Pacific
Scottish Mortgage	28.3%	Global
BlackRock Greater Europe	16.4%	Europe
Caledonia Investments	11.5%	Flexible Investment
Impax Environmental Markets	20.0%	Environmental
Henderson High Income Trust	8.8%	UK Equity & Bond Income
JPMorgan China Growth & Income	16.4%	China/Greater China
JPMorgan Global Growth & Income	14.5%	Global Equity Income
JPMorgan US Smaller Companies	18.5%	North American Smaller Companies
Law Debenture	11.7%	UK Equity Income
Miton Global Opportunities	11.6%	Flexible Investment
Third Point Investors	15.7%	Hedge Funds

Source: FE Fundinfo, 29 October 2021 • Created with Datawrapper

Another top quartile star turn is **Marlborough European Multi-Cap (B90VHJ3)**, the David Walton-managed fund with a large weighting to small and micro caps, while the presence of both **Stewart Investors Asia Pacific Leaders Sustainability (3387476)** and mixed asset fund **Liontrust Sustainable Future Managed Growth (3002962)** in our list demonstrates there has been real money to be made from funds with a focus on sustainability themes.

Within our investment trusts screen, two stars from the Baillie Gifford stable are noteworthy for continuing to set the performance standard, namely retail investor favourite **Scottish Mortgage (SMT)** and Asia Pacific trust **Pacific Horizon (PHI)**.

INCOME QUEST

Investors have long been starved for yield, so it is reassuring to see a select band of income-focused funds and trusts among the ranks of consistent first quartile performers. Their number includes the likes of the near-£1.4 billion **Schroder Sterling Corporate Bond (0937937)** fund, which pays quarterly distributions and is diversified across 269 holdings. Other ultra-consistent plays include **Rathbone Ethical Bond (B77DQT1)**, a £2.7 billion fixed interest fund with a long-run record of outperforming the IA Sterling Corporate Bond sector. And within the investment trusts universe, both **Law Debenture (LWDB)** and **Henderson High Income Trust (HHI)** are ranked first quartile over all four time periods.

WHY BEING FIRST QUARTILE COUNTS

While the fortunes of, and sentiment towards, themes, geographic markets and industry sectors will wax and wane, super-consistent funds are likely to outperform sector peers on the way up and/or preserve investors' capital better on the way down.

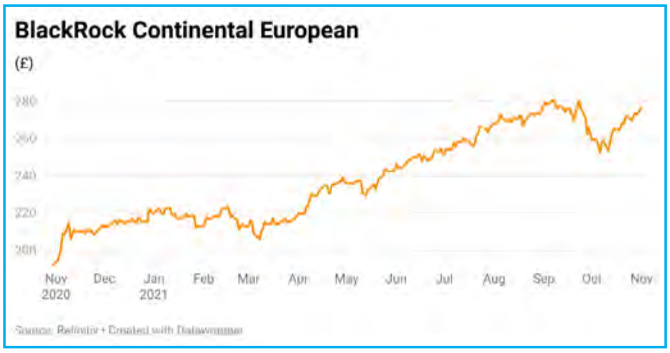
This is the reason why quartile rankings are so important. They provide a measure of how well a fund has performed against all other funds in its category, with rankings ranging from 'Top Quartile', often referred to as 'First Quartile', to 'Bottom Quartile', over various time periods.

Put simply, quartile rankings are used to compare returns of funds in the same category. For instance, if a given fund category has 100 funds, each quartile will be made up of 25 funds. And the 25 funds with the highest returns will belong to the top or first quartile, while the next best 25 funds will inhabit the second quartile and so on.

SHARES' PICKS

BLACKROCK CONTINENTAL EUROPEAN FUND ACC (B4VY989) £47.88

The fund, run by the experienced duo of Stefan Gries and Giles Rothbarth, invests in high-quality growth companies with a focus on capital appreciation rather than dividends.



The managers take a high-conviction approach and hold a very limited number of stocks which they consider to be not just 'best in class' in Europe but in their global sector.

At present the portfolio consists of just 35 stocks, with the top five holdings – Dutch semiconductor equipment maker ASML, French luxury goods house LVMH, Swiss pharmaceutical firm Lonza, fellow Swiss specialty chemicals firm Sika and Danish shipping group DSV – comprising more than a quarter of the fund.

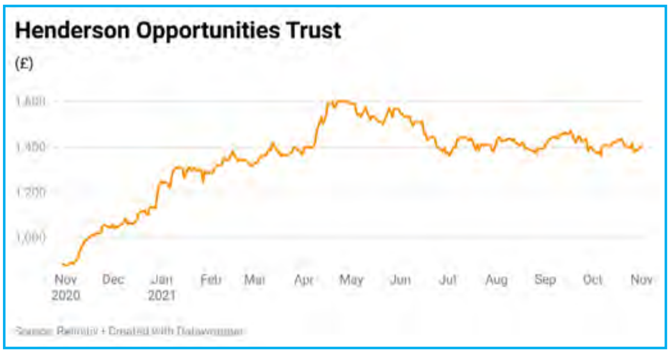
Total returns have been impressive over one year (31.2%), three years (19.9% annualised), five years (17.6%) and 10 years (15.5%).

The fund also performs well on sustainability metrics, with no exposure to thermal coal, oil sands, tobacco, firearms, nuclear or other controversial weapons, and no holdings in companies which violate the principles of the United Nations Global Compact.

As a result, it gets the highest possible score on the MSCI ESG fund rating chart of AAA to CCC out of 421 funds in the European ex-UK equity sector. The ongoing cost is 0.92%. (IC)

HENDERSON OPPORTUNITIES TRUST (HOT) £13.73

The £109 million trust has consistently beaten the FTSE All-Share over many years, and we believe the managers' diversified approach and flexible mandate means it has the potential to continue to perform well under varying market conditions.



Managers James Henderson and Laura Foll deliberately construct the portfolio to achieve a high level of diversification by dividing it into seven different classifications of buckets.

The seven buckets are early-stage companies, small and medium sized compounders, fast growing smaller companies, large companies, special situations, natural resources, and companies that are in recovery.

The trust holds between 20%-and-40% in the compounders bucket, comprised of companies that consistently grow their profits and have high margins.

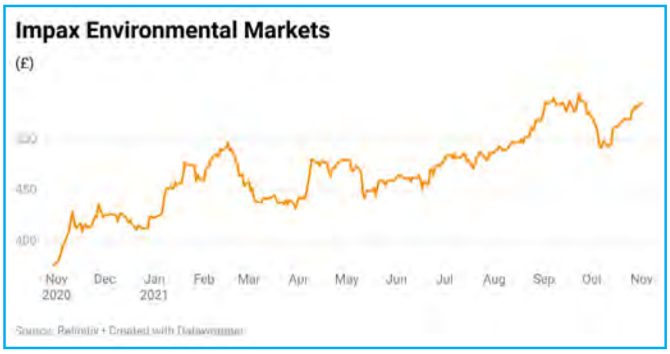
Up to 20% of the portfolio is held in recovery stocks which are generally out of favour with investors. The team will only hold firms where they have identified a specific catalyst to unlock value or where there is a clear route to profitability.

One common theme that runs through the portfolio is a focus on companies which have the potential to become the next leaders in their field.

Top holdings include oil and gas company **Serica Energy (SQZ:AIM)**, **Barclays (BARC)** and housing development company **Springfield Properties (SPR:AIM)**. The ongoing cost is 0.88%. (MGam)

IMPAX ENVIRONMENTAL MARKETS (IEM) 528.8P

Shares in green investment trust Impax **Environmental Markets (IEM)** may have exploded into life of late as ESG (environmental, social and governance) issues have moved up the agenda for investors.



However, the fund is not some Johnny-come-lately when it comes to investing in this space having been established back in 2002 and it has an enviable track record over the last 10 years at least.

Managers Bruce Jenkyn-Jones and Jon Forster take a selective approach, avoiding investment in big electric vehicle plays like Tesla and China's Nio, for example, citing their failure to meet strict ESG criteria.

The current COP26 summit in Glasgow should set the agenda for at least the next decade of investment in green infrastructure by governments across the world providing a boost to the trust's portfolio.

The focus is on clean energy and energy efficiency, water treatment and pollution control, waste technology and sustainable food. It is a reasonably concentrated portfolio given this wide remit, with 64 holdings as at 30 September 2021.

It is a fund for capital growth rather than income with a very nominal yield of 0.4%. The trust has an ongoing charge of 0.95%, not unreasonable for a fund with a specialist focus. (TS)

LAW DEBENTURE CORPORATION (LWDB) 774P

This investment trust is a rare beast, combining a professional legal services business with a large portfolio of equities professionally run by an outside management team.

The mixture clearly works as the half-year results in July showed. Over one year the net asset value total return has been 41.7% against 21.5% for the FTSE All-Share, over five years it is 75.6% against 36.9% and over 10 years it is 167.5% against 85.5%.

The share price total return has been even better at 184%, meaning £10,000 a decade ago would be worth £28,400 as of July against £18,550 for the All-Share.

Its history goes back much further however, to its founding in 1889 by a group of lawyers and businessmen including Edwin Waterhouse, one of the progenitors of today's PWC.

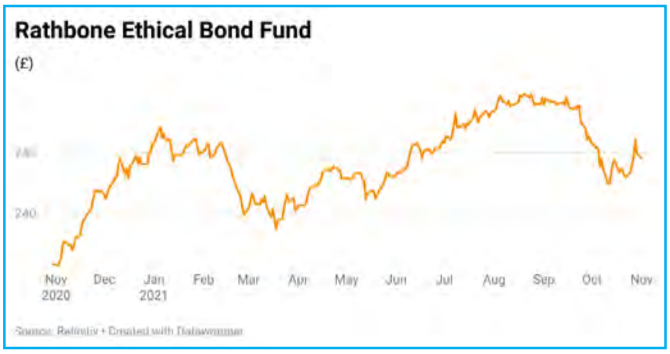
As well as capital growth, the trust has a strong belief in paying a rising dividend, which it has for the last 42 years including during the pandemic making it one of the Association of Investment Companies' longest-serving 'Dividend Heroes'.

The fund management team of James Henderson and Laura almost need no introduction, with Henderson having run the fund since 2003 and Foll joining in 2011 and becoming joint manager in 2019. The ongoing charge is a very reasonable looking 0.57%

The duo take a multi-cap approach seeking out companies whose growth prospects are being under-priced by the market and therefore come with a 'margin of safety' in valuation terms. (IC)

RATHBONE ETHICAL BOND FUND (B77DQT1) 244.66P

Top quartile perennial **Rathbone Ethical Bond (B77DQT1)** is a near-£2.7 billion fixed interest fund with a long-run record of outperforming its IA Sterling Corporate Bond sector.



Managed by Bryn Jones with assistance from Noelle Cazalis, the fund seeks to generate a greater total return than the sector, after fees, over any rolling five year period. When selecting investments, Jones and Cazalis assess the economic environment to determine which industries they want to own as well as the duration of their investments.

They then use their 'Four Cs Plus' approach to evaluate creditworthiness, weighing up the Character of a company's managers, Capacity, to ensure it isn't over-borrowing and has the cash to pay its debts, a group's Collateral, to check it has assets to back the loan, as well as the Covenants, which are the loan agreements that set out the terms of the bond. Conviction is the 'Plus' part of the assessment.

As the factsheet explains: 'We think differently to the market; sometimes contrarian, sometimes sceptical of orthodox thinking, but always opinionated'.

Rathbone Ethical Bond boasts an attractive historical distribution yield of 3.1% and a competitive ongoing charges figure of 0.65%. At the end of September, the fund was reassuringly diversified across 266 holdings. (JC)

SLATER RECOVERY FUND (B90KTC7) 433.37P

Shares extolled the virtues of the Mark Slater-managed **Slater Growth Fund (B7T0G90)** here, although sister vehicle **Slater Recovery (B90KTC7)** is another consistent, first quartile performer.

Slater Growth is a 'pure' growth fund famed for utilising the price-to-earnings growth (PEG) ratio. Yet while Slater Recovery's core is formed of companies with low price-to-earnings ratios relative to earnings growth and cash flows, star manager Slater also uses a secondary recovery investment screen to find turnarounds and companies trading at discounts to net asset value or cash, with a focus on companies with strong balance sheets, powerful competitive positions and high returns on capital. The ongoing cost of Slater's expertise is 0.77%.

A multi-cap fund, Slater Recovery has a track record of outperforming the IA UK All Companies sector and making money in rising and falling markets alike, delivering capital growth in the good times and protecting investors' cash in the bad.

As of the end of September 2021, top 10 holdings ranged from media group **Future (FUTR)** and groceries goliath **Tesco (TSCO)** to outsourcer **Serco (SRP)**, insurer **Prudential (PRU)** and pharmaceutical services play **Clinigen (CLIN:AIM)**, not to mention AIM star turn **Next Fifteen Communications (NFC:AIM)** and **Jubilee Metals (JLP:AIM)**. (JC)


Proudly managed by BMO
Putting the future first for over 150 years.
Since we started in 1868 the world has seen many changes, and will continue to, which is why we invest with the future in mind. We invest responsibly, delivering dividend growth and a more sustainable path for investors.
Capital is at risk and investors may not get back the original amount invested.
Find out more at
fandcit.com/future
Responsible for our future
F&C Investment Trust
BMO Asset Management Limited is authorised and regulated by the Financial Conduct Authority. Registered Office: Exchange House, Primrose Street, London EC2A 2NY. Registered in England & Wales No 517895. 1573615 (09/21). UK

Bill Ackman on the market outlook and his big bet on music


© Insider Monkey

One of the world's most famous investors shares his views on investing

Bill Ackman is one of the most famous investors active in the market today and his London-listed investment company **Pershing Square Holdings (PSH)** has enjoyed considerable success in recent years, generating a 58% return in 2019 and a 70% return in 2020, the latter helping it to gain a place in the FTSE 100 index.

While its share price performance has lagged the MSCI World global stock market benchmark this year, Pershing Square Holdings has been playing catch-up in recent months. Its share price is up 12% year to date, better than the 10% return from the FTSE 100 but less than the MSCI World index's 20% return.

Aside from a setback with Fannie Mae and Freddie Mac, the biggest disappointment in its portfolio this year has been special purpose acquisition vehicle Pershing Square Tontine which was blocked by the US regulator from taking a stake in Universal Music.

However, Pershing Square Holdings instead took a direct stake in Universal Music, and it is this investment which has helped to revive the investment company's share price in recent months. In August, Pershing Square Holdings said Univeral Music had the potential to be one of its most successful long-term investments.

Now in an exclusive video interview with *Shares*' editor Daniel Coatsworth, Pershing Square's Bill Ackman says: 'Digitisation of music made it easy to pirate and more convenient to steal music than go to a record store and buy music. That almost killed the industry.

'Spotify launched and that led to the recovery of the music business and streaming has become more than half of music industry revenues. Universal is the dominant player with a third of global music market share.'

Pershing Square Holdings has a concentred portfolio of stocks, and its manager also uses financial engineering to try and profit from predicting market events. In 2020, Ackman said he made $2.6 billion for various Pershing Square funds from a bet that the coronavirus outbreak would cause a market crash. Since then, Ackman has bought various financial instruments which could yield a positive return if interest rates suddenly go up.

Ackman insists that 'predicting short-term market movements is a fool's game and is not something we do.' However, he has developed a reputation for seeking protection against large market-moving events, sometimes referred to as buying insurance against disaster. But ultimately, he says Pershing Square Holdings' core strategy is about owning 'super-durable, undisruptable companies'.

BILL ACKMAN ON THE MARKETS

Find out what Pershing Square Holdings' manager has to say.

Video 1: How he runs Pershing Square Holdings and uses financial instruments as insurance measures

Video 2: Why he invested in Universal Music

Video 3: His outlook for 2022 and comment on some of the portfolio holdings

By **Daniel Coatsworth**
Editor

SMALLER COMPANIES: FINDING THE BEST

BLACKROCK SMALLER COMPANIES TRUST PLC

Roland Arnold, Portfolio Manager of the BlackRock Smaller Companies Trust plc, explains how he uncovers companies that could grow their earnings for the long term.

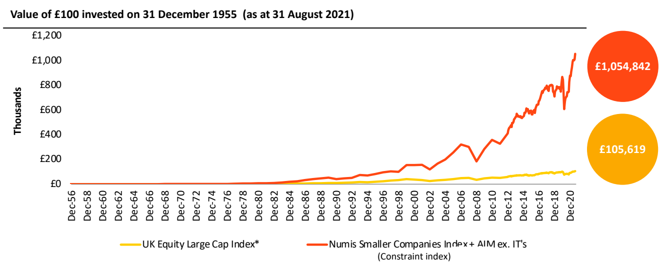
Roland Arnold
Portfolio Manager, BlackRock Smaller Companies Trust plc

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

In the short term, share prices for individual companies may be driven by a variety of unpredictable and erratic factors - from fear, or greed, to investor confidence or fund flows. However, in the longer term, share prices largely follow company earnings. If a company can grow its earnings sustainably over time, this will drive share price performance. Identifying such companies is the simple goal of our investment approach.

Over the very long term, since 1955, smaller companies have delivered around 4% better return than larger companies.

The case for investing in smaller companies



(%)	31/12/15 to 31/12/16	31/12/16 to 31/12/17	31/12/17 to 31/12/18	31/12/18 to 31/12/19	31/12/19 to 31/12/20	31/12/20 to 31/08/21
FTSE All-Share	16.8	13.1	-9.5	19.2	-9.8	14.7
Numis Smaller Companies +AIM ex ITs (Constraint index)	12.0	21.9	-15.8	22.2	4.9	22.8

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Smaller company investments are often associated with greater investment risk than those of larger company shares. *Large Cap performance represented by Barclays UK Equity Large Cap Index until December 2010. In January 2011, Barclays began to use FTSE All-Share to track the performance of UK large cap companies.
Source: Datastream, UK Equity Large Cap Total Return Index and Numis Smaller Companies Index + AIM ex. Investment Trusts Total Return Index as at 31 August 2021.

Compounded over many years, this could make a significant difference to an investor's returns, however, it is worth noting that this is an average. Active managers may deliver a higher return if they get their stock selection right, or a lower return if they don't.

With this in mind, we focus considerable resources on stock selection. Our bottom-up research process looks to find those companies that can grow their earnings over many years. These are companies that we can buy early in their development, with a goal to hold them through their growth into larger companies. However, please be aware that past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

FINDING GROWING COMPANIES

The 100-120 companies that sit in our portfolio score well on the five key criteria at the heart of our investment process. The first is to assess the quality of the management team, whether they have a track record of delivering on their promises. We also look at the market position for each company - are these businesses capable of leading and shaping their markets long term?

We examine the balance sheets in-depth: this has been particularly relevant over the past year. Do they have the capital to survive through difficult and unusual market conditions? Cash flow is also important. A company needs to have the cash flow to support its organic growth, rather than being forced to keep coming back to shareholders for more capital.

We also look at the track record. History can be a guide to the future. Has a company consistently met or beaten expectations? If it has, it tells us something positive about the management team or the market position or the products.

WHAT SECTORS DO WE FIND APPEALING?

Where we find these opportunities will change over time. However, our core holdings have remained relatively similar in recent years and through the pandemic. Management teams have rewarded our faith in them during this crisis, responding flexibly and skilfully to a changing world, reshaping their business or strategy where necessary.

The three largest sectors in the portfolio today are media, investment banking/brokerage and consumer services. The media sector suggests a conformity in exposure, however the stocks that sit in the portfolio have a variety of specific drivers, some are geared to reopening, others to structural market shifts. The 'investment banking/brokerage' sector is poorly named and doesn't reflect our exposure, which is focused on asset managers. We believe the market has further to run as economic recovery builds and this sector is well-placed. This is particularly true for those with expertise in the sustainability sector.

On the consumer services side, there are many businesses in the retail sector that look interesting today. Many have fundamentally shifted their distribution mix during the pandemic, shifting to a multi-channel offering that will endure. Sadly, many retailers haven't made it through Covid, so the ones that are left are in a much stronger position.

THE BROADER OUTLOOK

We see three key themes emerging, which will help guide our stock selection from here. The growth in consumer spending as the economy reopens will be important. Labour shortages are leading to increased pay, whilst furlough and government support have allowed consumers to build considerable savings, which could be very beneficial in boosting the recovery.

The industrial cycle is another area of focus. We see the demand continuing to build with recoveries in manufacturing, automotive and, ultimately, aerospace. We also think companies are re-examining the 'just-in-time' model that is commonplace but has been proved to be a very difficult way to manage supply chains in the last two years. Both the US/China trade war and the pandemic exposed the problems with companies not having the stock they need to maintain production. We believe two things are likely to happen: the first is a general industrial recovery, but the second is an inventory restock as companies rethink their supply chains. It will create a leveraged effect for certain industrial companies.

We're also positive on the UK construction sector. This is seeing strong demand from both the private sector (such as housebuilders), and the public sector (from infrastructure development). This is a sector that has changed in the last few years, with a far better contract environment.

Equally, we are conscious of emerging risks. We continue to consider how inflation or labour shortages may affect our

BlackRock.

portfolio holdings. However, our focus is on market leading businesses, which have natural pricing power. This can help mitigate against inflationary and competitive forces.

We will keep looking, trying to find more companies that can deliver strong earnings growth in the years ahead. Ultimately, we want to find the strongest 100-120 companies in the UK market. Most of all, we are optimistic from here – we believe in the market recovery.

For more information on BlackRock Smaller Companies Trust, and how to access the potential opportunities presented by smaller companies, please visit www.blackrock.com/uk/brsc

TO INVEST IN THIS TRUST
CLICK HERE

RISK WARNINGS

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

TRUST SPECIFIC RISKS

Liquidity risk: The Trust's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Trust may not be able to realise the investment at the latest market price or at a price considered fair.

Gearing risk: Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

Smaller companies risk: Smaller company investments are often associated with greater investment risk than those of larger company shares.

IMPORTANT INFORMATION

Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

BlackRock has not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our product is suitable, please read the fund specific risks in the Key Investor Document (KID) which gives more information about the risk profile of the investment. The KID and other documentation are available on the relevant product pages at www.blackrock.co.uk/its. We recommend you seek independent professional advice prior to investing.

This material is marketing material. The Company is managed by BlackRock Fund Managers Limited (BFM) as the AIFM. BFM has delegated certain investment management and other ancillary services to BlackRock Investment Management (UK) Limited. The Company's shares are traded on the London Stock Exchange and dealing may only be through a member of the Exchange. The Company will not invest more than 15% of its gross assets in other listed investment trusts. SEDOL™ is a trademark of the London Stock Exchange plc and is used under licence.

Net Asset Value (NAV) performance is not the same as share price performance, and shareholders may realise returns that are lower or higher than NAV performance.

The BlackRock Smaller Companies Trust plc currently conducts its affairs so that its securities can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The securities are excluded from the Financial Conduct Authority's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Any research in this material has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This material is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

ID: MKTGH1021E/S-1880162

Say yes to Scottish Investment Trust merger with JPMorgan

The trust's current investment approach isn't working and the new merger proposal looks like a sensible solution

After more than 130 years, the board of the once-pioneering **Scottish Investment Trust (SCIN)** has decided it is to be subsumed into a rival global trust and will cease to be. The trust has suffered in recent years from poor performance and the board of directors has rightfully called for change.

Shares takes the view that shareholders should vote in favour of the merger with **JPMorgan Global Growth & Income (JGGI)** as this is a decent investment trust and one which could deliver superior returns.

The caveat is that the investment approach is slightly different. Scottish Investment Trust was a pure 'value' play, investing in unloved companies but whose merits it believed would eventually be recognised by the market. JPMorgan's trust has a broader approach, building a portfolio of best ideas whether that's value or growth in style.

NAV total return

	JGGI	SCIN	AIC Global Equity Income
1 Year	33.4%	15.8%	24.7%
3 Years	66.8%	8.7%	35.9%
5 Years	85.6%	17.6%	43.8%
10 Years	275.0%	126.2%	163.1%

Data correct as of 27 October 2021

Source: Association of Investment Companies • Created with Datawrapper

THE TRUST'S HISTORY

Incorporated in Edinburgh in 1887, Scottish Investment Trust originally invested heavily in the Americas, at that time still a developing market.

As a result, it owned stakes in railroads in the US, Latin America and Cuba, as well as an Argentinian bank, a Brazilian telegraph company, Costa Rican bonds and a Uruguayan chemical company.

There were also investments in 'the colonies', such as companies managing rubber and tea plantations. Some of its early investments are still well known today, including **HSBC (HSBA)**, P&O – now owned by **Carnival (CCL)** – **Rio Tinto (RIO)** and Standard Life, now part of **Abrdn (ABDN)**.

The company's first board members believed investment at home 'seldom matched the prospects for economic expansion which existed overseas', and by the turn of the 20th century, the Scottish Investment Trust had most of its investment overseas.

Except during the Second World War, when the Treasury requisitioned almost all overseas investments to help pay for the war effort, and its immediate aftermath, this remained the position. The company's principal aim was to invest in 'well-managed companies which were likely to achieve a good increase in earnings and dividends'.

CHANGING OF THE GUARD

In 2015, following the ousting of the former chief investment officer, the remaining managers abandoned the previous growth and income strategy and embarked on a 'high conviction, global contrarian' investment approach.

The board took the view that a period of at least five years was necessary to evaluate the company's returns under this new mandate.

While it doesn't have a formal benchmark, the company's net asset value total return over the five years to the end of this April consistently underperformed the MSCI All Country World Index and the Association of Investment Companies' Global sector index.

As a result, in early June 2021 the board appointed consultants to help it review the company's investment management arrangements, inviting proposals from rival fund management groups.

The board especially wanted to hear from firms 'with the experience of managing listed closed-ended funds, designed to deliver, over the longer term, above-index returns through a diversified global portfolio of attractively valued companies with good earnings prospects and sustainable dividend growth'.

END OF AN ERA

The board has now concluded 'the most compelling outcome for shareholders' would be to combine Scottish Investment Trust JPMorgan Global Growth & Income to form an enlarged investment trust with net assets in excess of £1.2 billion and a single, focused mandate. Essentially it would see JPMorgan in charge and the Scottish Investment Trust name disappear.

Assuming shareholders vote in favour of the deal, the JPMorgan management team will comprise Helge Skibeli, Rajesh Tanna and Tim Woodhouse, supported 80 in-house analysts located globally.

Among the attractions of merging with the JPMorgan trust are its strong NAV total return over the last five years (14% per year or 1.7% ahead of the MSCI ACWI in sterling), the depth of in-house resources JPMorgan brings, and its generous distribution policy which targets dividends of at least 4% of NAV at the end of the preceding year.

The enlarged investment trust would benefit from economies of scale and come with an average annual management charge set at 0.49% of assets and an ongoing charge of 0.57% for the next 12 months.

WHAT HAPPENS NEXT?

General meetings of both trusts will be convened to approve the change of manager and merger, with the new managers expected to be in place by mid-January next year and the transaction expected to complete during the first quarter. The dates for the shareholder votes have yet to be published.

Assuming a deal is approved, shareholders in Scottish Investment Trust will receive new shares in JPMorgan Global Growth & Income on a formula asset value basis, comparing the net asset values of each company adjusted for costs and declared but unpaid dividends.

In the case of Scottish Investment Trust, the formula will exclude the company's offices at 6 Albyn Place in Edinburgh, its home since 1889, the pension scheme and its wholly owned subsidiary SIT savings. These will remain with the liquidator along with sufficient assets to meet the trust's liabilities.

How performance of JPMorgan Global Growth & Income and Scottish compares

Source: FE Fundinfo · Created with Datawrapper

By **Ian Conway**
Senior Reporter

Games Workshop feels the wrath of its fan base

The fantasy miniatures specialist has built a great business but alienating its loyal followers could be devastating

Could the imaginary battlefields created by fantasy games and miniatures maker **Games Workshop (GAW)** become real life battlefields between the gaming community and management?

The shares have dropped 20% in the last six weeks on no news apart from a trading update where management said trading was in line with expectations, while mentioning freight cost pressures and currency headwinds.

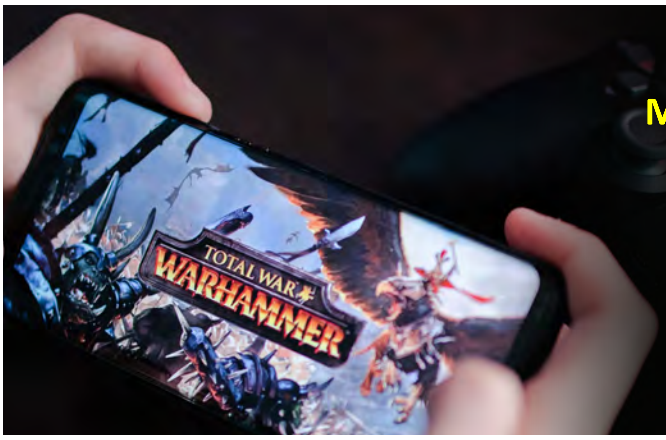
The share price weakness may just be profit taking after a stellar run in the shares which are up 338% since the March 2020 lows and up 18-fold over the last five years.

However, there could be other factors at play which point to more fundamental concerns.

In early September independent analyst Paul Oakley published a research note on the company in which he highlighted some risks that investors may have been downplaying.

As *Shares* has written about before Games Workshop has benefited greatly from operating leverage with higher revenues driving a disproportionate increase in profit due to the firm's high proportion of fixed costs.

Oakley reminds investors that operating leverage can and does work both ways as happened in 2016 when a small £1.1 million reduction in revenues resulted in a £4 million fall in operating profit.



IN 2016 A £1.1 MILLION DROP IN REVENUE RESULTED IN A £4 MILLION FALL IN OPERATING PROFIT

He says: 'I've seen so many investors mistake operational gearing for genuine sustainable growth without considering the risks that come with it.

Another risk highlighted which might prove prescient is the company's initiative to launch a subscription service called *Warhammer +*.

Oakley said he was 'puzzled' by the move because the success of warhammer.com is down to its inclusivity which the subscription service takes away, risking the wrath of its loyal fans.

Perhaps more worryingly, the company has been become more aggressive towards protecting its intellectual property by stopping Youtubers from using Games Workshop's content to create animations and stories.

It might be a case of 'biting the hand that feeds' because there is no question that fan sites have been an important driver of growth for the *Warhammer* brand online.

In a recent (29 Oct) research note investment bank Jefferies referenced 'simmering' discontent within Games Workshop's fan base which caused the shares to drop 8% on higher than average volume.

Jefferies noted a lot of negative community feedback and downvotes to *Warhammer* content and calls to boycott the business.

Apparently, a boycott threat on social platform Reddit attracted around 19,000 upvotes.

By **Martin Gamble**
Senior Reporter

Why the opening price of a share can be different from the previous close

Share prices don't always behave the way you expect

There is no reason why a share must open at the previous night's closing price. Daily price moves are determined by supply and demand for the shares and that in turn is affected by company news such as earnings updates, acquisitions, disposals, legal disputes, new product launches and so on.

In fact anything which changes the fundamentals or investor sentiment towards a company has the potential to 'move' the share price up or down.

For example, medical products company **ConvaTec (CTEC)** recently increased its full-year expectations for revenue growth and posted a positive third quarter trading update.

Investors who read the news at 7am and wanted to purchase shares were willing to pay more than the previous closing price because the prospects for the company had improved.

This resulted in the shares opening 2% higher at 8am when trading resumed from the previous day. Initial orders are processed in an opening auction around ten minutes before the open and there is a similar auction after the close at 4.30 pm.

Only people with access to the London Stock Exchange's order book can participate and in general retail investors using an investment platform won't have access to this service.

In addition to specific company news, overnight news in other markets can also impact how UK shares open.

For example, if US or Asian markets sell-off overnight, there is a good chance that UK markets will follow suit and open lower.

TWO TIERS

The London Stock Exchange operates an automated trading platform called SETS (stock exchange electronic trading system) for large liquid shares such as food giant **Unilever (ULVR)** and SETSqx for less liquid shares. The qx stands for quotes and crosses.

The automated system is used by institutions and brokers and their buy and sell orders are matched by the platform while on SETSqx market makers are obliged to make a two-way price in shares.

A market maker's job as the name suggests is the make a market in the shares of a company. Let's imagine the market maker didn't exist for a second and you wanted to buy shares in late night bar operator **Revolution Bars (RBG:AIM)**.

You would need to ring up existing shareholders to see if they were willing to sell you some shares at a reasonable price.

Market makers effectively provide that service and get paid via a spread which is the difference between the buying price or *offer* and the selling price or *bid*.

The spread in less liquid shares is higher which reflects the higher risk that market makers assume in making a market.

While market makers generally provide a useful service, investors should always check the spread before attempting to buy shares in less liquid companies.

It can be very wide, in some cases 10% or more compared with around three basis points for liquid shares such as Unilever.

Paying a 10% dealing spread means that a buyer would instantly incur a 10% paper loss and the shares would need to rise by 10% for the investor to reach breakeven.

By **Martin Gamble** Senior Reporter

Water: the investment theme which is bubbling up nicely

Analysing the funds and ETFs which play this top-performing space

The argument for investing in the water sector is simple. Water is critical for both human life and commercial activity. Economic and business growth is contingent upon a steady stream of clean water.

For these reasons water has been talked about as potentially the next big thing in terms of global investment trends for at least a decade.

However a combination of the growing prominence of investing with an ESG (environmental, governance, social) bias and a mounting awareness of the specific challenges associated with ensuring the world has sufficient clean water has helped move water firmly into the mainstream in the last 12 months and this has been reflected in the performance of assets in this space.

HOW TO INVEST

There are two main options for UK investors' interested in gaining exposure to this theme. First, invest in one of three dedicated water funds.

Second, select a specialist water ETF (exchange-traded fund). There are two ETF's with established track records, and a third relatively new entrant to the sector that has adopted a slightly different approach to its charges, in an attempt to outperform its rivals and scale its assets under management.

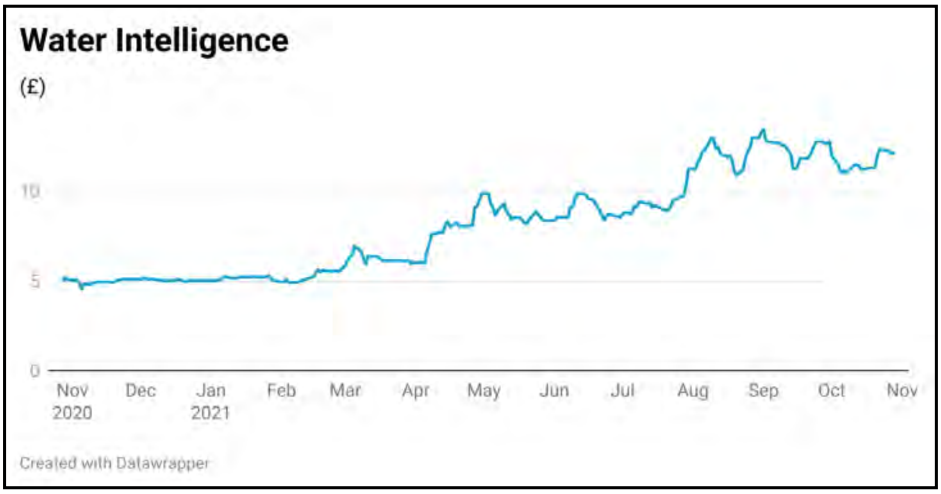

Water Intelligence is able to identify and fix water leaks

Small cap **Water Intelligence (WATR:AIM)** has enjoyed a stellar year with its shares more than doubling in the last 12 months to £12.

The business uses its technology to identify and fix water leaks and recently reported a 42% rise in pre-tax profit for the first nine months of 2021 to $5.9 million. However, for most investors diversified exposure to water is probably a more sensible approach.

WHY WATER MATTERS

Several factors have exacerbated the long-term scarcity of water supplies.



These include climate change, population growth, demographic shifts and increasing industrialisation. Large-scale investments are needed in both emerging and developed markets in order to improve efficient water use, increase water supplies, ensure water quality and mitigate scarcity within the agriculture sector.

Water is an essential component for biological, environmental, social and economic growth. Nonetheless, during the last century imprudent global water consumption has threatened water supplies and resulted in a water crisis.

This acute shortage is likely to become more pronounced given demographic shifts coupled with the impact of industrialisation.

Limited supply, coupled with ever increasing consumption and rising levels of pollution, highlight the need for more sustainable and long-term solutions. These will differ depending upon local market traits, like urban trends, existing infrastructure and topography.

WHICH SECTORS HAVE EXPOSURE?

From a practical perspective the utilities sector is a natural destination for investors seeking exposure to the water sector. These companies focus on the provision of water and wastewater to residential, commercial, and industrial sectors.

They operate large and small-scale water and wastewater networks as well as special use water facilities such as desalination plants near oceans and advanced filtration plants in urban areas. They generate revenue through customer fees as well as through the recovery of nutrients and energy from wastewater.

Investing in water infrastructure provides stable and enduring returns. Increasing demand in urban areas throughout the world, suggests that investments in utilities will continue to be a steady source of income in forthcoming decades.

In developed countries, utilities are investing in renewing existing infrastructure, and increasingly in green infrastructure (a network that provides the ingredients for solving urban and climactic challenges by building with nature).

Engineering and construction is another key beneficiary of the need to ensure a safe and reliable supply of water. In developed countries, investment is focused on replacing aging distribution networks. In major urban centres pipes and mains are outdated and in need of replacement.

The value of water lost before it reaches the customer, (losses due to main breaks and leaks), totaled $39 billion per year globally.

The United Nations sustainable development goal seeks to ensure availability and sustainable management of water and sanitation for all by 2030.

According to a research paper entitled *Estimating the Value of Public Water* written by Martin Doyle at Duke University to meet this target annual water investments must triple in the next decade to around $114 billon a year.

A key driver of growth is the upgrade and expansion of distribution networks to consumers in residential communities and commercial buildings. From plumbing, pipes, toilets and faucets to heating and cooling systems.

However green infrastructure is gaining importance. For example 'smart' urban planning policies can help reduce flood risks by providing spaces to collect and store floodwater within the built environment. The same flood run off can be used to recharge municipal groundwater reservoirs.

SPECIALIST WATER FUNDS

There are currently three dedicated water funds available to investors. These include **RobecoSAM Sustainable Water Equities (BMF7CR0)**, **Pictet Water (B516BZ3)**, and **Fidelity Sustainable Water and Waste (BHR44F6)**.

RobecaSAM Sustainable Water Equities top holdings

Company	Sector	
Thermo Fisher Scientific	Healthcare	4.8%
PerkinElmer	Healthcare	4.0%
Suez	Utiltiies	3.1%
Ecolab	Basic Materials	3.0%
AO Smith	Industirals	3.0%

Source: Morningstar, 30 September 2021 • Created with Datawrapper

From a performance perspective the RobecoSAM fund has the best track record, with a three-year annualised return of 21.3%. This compares with a comparable figure of 19.4% for Pictet's Water fund.

The Fidelity Sustainable Water and Waste fund has a shorter track record than the other two funds. In 2020, the fund returned 7.1%, underperforming the benchmark that recorded a 13% return, and year to date returns indicate a similar pattern with the fund returning 18.3% versus a benchmark return of 24.8%.

This divergence in the performance of these funds is predominantly a consequence of their relative sector weightings. Robeco's fund has a 43% weighting in industrials, a 15.3% weighting in in healthcare, 15.2% in utilities and 14.4% in the basic materials sector.

The consumer cyclical sector has the lowest weighting in the fund at 7.9%. Both the Fidelity and the Pictet fund have significantly greater weightings to the industrials sector at 50.7% and 54.4% respectively.

Another notable point of differentiation is Robeco fund's larger exposure to the basic materials sector, at 14.4% compared to both the Fidelity and Pictet funds at 0.93% and 4% respectively.

With respect to the healthcare sector both the Robeco and Pictet offerings have substantial investments at 15.3% and 13.7%, this in marked contrast to Fidelity's fund which has no healthcare exposure, but does have a 13.1% weighting in technology. The other two funds have no technology investments.

FACTORING IN COST

From a cost perspective the Pictet Water fund has the highest charges, it has an ongoing cost fee of 1.1% and an annual management charge of 1.2%. The comparable figures for the Fidelity and Robeco funds are 0.95% and 0.75%, and 0.96% and 0.85%

There are three different water ETF's providing exposure to the sector. These are **Lyxor World Water (WATL)**, **iShares Global Water (IH20)**, and **L&G Clean Water (GLGG)**. On a three year annualized basis the iShares ETF has the strongest performance, but only marginally, at 20.8%.

The Lyxor ETF almost mirrors this performance at 20.6%. The L&G ETF was formed in June 2019, so there is a paucity of comparable performance data. In 2020 the fund outperformed the benchmark by a significant margin, with a return of 19.3% against 13% for the benchmark.

iShares Clean Water top holdings

Company	Sector	
American Water Works	Utiltiies	9.6%
Xylem	Industrials	8.9%
Halma	Industrials	5.3%
Veolia Environment	Industrials	5.1%
Gaberit	Industrials	5.1%

Source: iShares, 30 September 2021 • Created with Datawrapper

All three ETF's follow different indices, which helps to explain the difference in performance. The L&G ETF tracks the Solactive Clean Water Index. This comprises a basket of sixty-six companies involved in the provision of technological, digital, engineering and other water services.

Consequently it has more of a technology driven growth tilt than the other ETF's. This accounts for its year to date return of 20.8% which is marginally ahead of the Lyxor ETF (20.5%), but lags the iShares ETF (23.5%).

As with the aforementioned specialist water funds, another factor influencing the divergent performance of these ETFs is their relative sector weightings. Lyxor fund has a greater weighting to the industrials sector (71%), compared to L&G (56%) and iShares (57%).

The iShares ETF also has a noticeably higher exposure to utilities sector (39.5%) than both the L&G ETF (26.2%), and the Lyxor ETF (25.9%).

The ongoing charges are almost identical for both the Lyxor and iShares ETF, at 0.6% and 0.65% respectively. As a relatively new entrant to the sector and with only $317 million of assets under management, the L&G team have strategically priced their offering at a discount, with a total expense ratio of 0.49%.

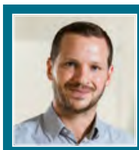
If we compare the returns (three-year annualised) for the best performing water fund (Robeco) versus the equivalent ETF, (iShares), the Robeco fund comes out ahead by a whisker, at 21.3%, versus a figure of 20.8% for the iShares ETF. However after accounting for fees, the return for the Robeco product comes in just behind the ETF.

By **Mark Gardner**
Senior Reporter

Can I protect my right to claim a pension at 55?

Our expert looks at how the normal minimum pension age works

I will be 55 in September 2028 and it's possible I will be adversely affected by the increase in the normal minimum pension age to age 57. Is it possible to protect my rights to access my pension at age 55 before the change comes into effect? I hold a SIPP with a large investment platform.
Carl



Tom Selby
AJ Bell Senior Analyst says:

The normal minimum pension age (NMPA) is the earliest point in time a saver can access their retirement pot. This is set at age 55 but there are plans to increase this to 57 from April 2028.

However, it isn't quite as simple as that. Firstly, the Government is protecting a number of specific professions – including the fire service, police and armed forces – from the rise.

Secondly, and more controversially, the Government wants to create a new 'protection' regime to allow people in pension schemes offering an 'unqualified right' to a specified pension access age lower less than age 57 to keep it.

It's worth pointing out that these are just proposals at this stage and haven't yet been written into UK laws.

Under the plans, anyone who was a member of a pension scheme which gave them an 'unqualified right' to access their retirement pot before age 57 will be able to retain that right.

Anyone who joins a pension scheme by 5 April 2023 that offered an unqualified right to a minimum access age below 57 on 11th February 2021 will also be able to keep that lower access age. This would be called their 'protected pension age'.

When someone transfers from a scheme with a 'protected pension age' to one without a protected pension age, they will be able to retain the lower pensions access age on the transferred funds.

Whether or not an unqualified right to access your pension before age 57 exists will be entirely random, based on the wording of scheme documentation written by pensions lawyers some time ago.

It is possible that you will be able to retain an NMPA of below age 57 if either:

1. Your existing scheme offered an unqualified right to an NMPA of age 55 on 11 February 2021, or
2. You transfer your funds to a scheme which offered an unqualified right to an NMPA of age 55 on 11 February 2021 by 5 April 2023.

However, I would strongly suggest you exercise caution before making any decisions about your pension on this basis.

Even if an alternative scheme can offer an earlier NMPA there are other factors – such as costs and charges, service and choice – which need to be carefully considered when making a transfer.

And for most healthy people accessing their pension at either age 55 or 57 will leave them at risk of running out of money early in retirement.

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.

Reached the 45% tax threshold? How to reduce your investment tax bill, legally

Protecting as much of your hard-earned cash as possible from HMRC

Many retirees will get a combination of income from their pension and from their investments and property holdings. However, they are subject to the same tax rules as someone earning that income when they are employed.

This means once you hit an income of £150,000 you will start to pay tax at 45%, whether that's from earnings or from investment income, but a sneaky tax quirk means that you'll pay a much higher tax rate once you hit £100,000 of earnings too.

Anyone who has income of more than £100,000 will see their personal allowance reduced, which is the amount they can earn tax-free each year, currently £12,570. For each £2 your income is over £100,000 you will lose £1 of your personal allowance, until it's entirely lost when your income is £125,140. This means your effective tax rate from £100,000 to £125,140 is 60%.

But there are ways to legally reduce the tax bill on your investments once you hit this band, or just to reduce the amount of tax you'll pay at 45%.

FIVE WAYS TO CUT YOUR INVESTMENT TAX BILL

Make sure as much money is sheltered from tax as possible

Regardless of your income tax rate, any income you earn in your ISA is tax free. Anyone can put up to £20,000 of money into an ISA each year, so a couple has the ability to shelter £40,000 a year from the taxman.

You can withdraw the income you get paid from your investments entirely tax free, as well as taking lump sums from your ISA to provide an income, tax free.

For someone with a £100,000 ISA that generates 5% income, that means you can earn £5,000 entirely tax free. You could then also take £10,000 out of the pot to use as income for the year, and pay no tax on that too.

Transfer high income investments to your spouse

This method requires two things: that you have income-producing assets outside of an ISA and that your spouse is in a lower tax bracket to you. If you have investments that produce a lot

"Anyone who has income of more than £100,000 will see their personal allowance reduced"

of income you could transfer them to your spouse. Ideally, they could put them in their ISA, if they have any of their annual limit left and then no tax is due on them. Alternatively, even if they do pay tax on the assets it will be at a lower tax rate. No capital gains tax would be due on the transfer, as transfers to a spouse are exempt.

Put money in your pension

If you've just tipped over £100,000 of income you could pay money into your pension to reduce your tax bill. If you contribute to a pension it effectively reduces your taxable income and so could pull you below the £100,000 limit.

You'll get tax relief at 45% on the pension contribution, but the effective cost to you is even lower, as that money would have been taxed at 60%.

For example, if your income is £110,000 you could put £10,000 into a pension and that would reduce your taxable income back to £100,000 and mean you don't fall foul of the 60% marginal tax rate.

You just need to check two things: first, that you haven't already paid in the maximum into your pension (which is £40,000 for most people but drops to £4,000 for those who have already accessed their pension) and second that you have enough earnings (from employment or being self employed) to make a pension contribution.

This is because you can only contribute to a pension up to the amount you earnt that year. For example, if your employment earnings were £10,000 in a year, and the rest was income from investments and property, you'd only be able to put £10,000 into your pension that year.

Shift your income to capital gains

Lots of retirees focus on income-producing investments, but these will be taxed at income tax rates. Instead, if the investment produces a capital gain it will be subject to capital gains tax, which is lower.

An additional rate-taxpayer would pay 45% tax on their income but only 20% on their capital gains (or 28% if its from property). What's more, everyone has a capital gains tax free allowance each year, which is currently £12,300 per person. Clearly you need to think about the investment and risk implications of switching your investments, but it's worth considering.

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

WATCH RECENT PRESENTATION WEBINARS

City of London Investment Trust (CTY)
Job Curtis, Portfolio Manager

City of London Investment Trust Renowned for its record-setting annual dividend increases since 1966, the City of London Investment targets long-term income and capital growth. With a conservative management style the Trust invests mainly in UK equities with a bias towards large, multinational companies.

Henderson Smaller Companies Investment Trust (HSL)
Neil Hermon, Director

This Investment Trust aims to maximise shareholders' total returns by following a disciplined process of investment in a diversified portfolio of companies which benefit from sustainable growth trends, and by controlling costs and using borrowings to enhance returns.

Tharisa (THS)
Phoevos Pouroulis, CEO

Tharisa is an investment holding company. Along with its subsidiaries, the company is engaged in mining, producing, selling, and distributing platinum group metals and chrome concentrates at a low cost. The company's operating segments include PGM; Chrome; Agency and Trading and Manufacturing.

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

CLICK TO PLAY EACH VIDEO

SHARES SPOTLIGHT

www.sharesmagazine.co.uk/videos

Insightful commentary on market issues

RUSS MOULD
AJ Bell Investment Director

What the bond market is telling investors

Unpicking how movements in government-backed fixed income can be read

The most violent price reaction to last month's Budget was seen in the usually calmer environment of the bond market.

The yield on the benchmark 10-year government bond, or gilt, plunged in one trading session from 1.11% to 0.985%.

That equated to a 1.3% one-day gain in the paper's price (since bond yields move inversely to price, just as is the case with shares) as the Budget document itself revealed a big drop in the amount of gilts that the Bank of England intended to sell for fiscal 2021-22, in response to downward revisions to estimates for government borrowing.

Budget prompted a rally in gilts

Source: Refinitiv

But that was the first bit of good news holders of UK government debt had had for a while. As inflation has picked up pace, so bond yields have surged and prices tumbled. From its year low of 0.18% on 4 January, the benchmark ten-year gilt yield rose to a peak of 1.20% on 21 October.

That equated to an 8% drop in the price of the paper – so anyone who bought at the yield low (and price peak) lost the equivalent of 44.4 years' worth of interest.

SAFETY FIRST

This raises the issue of whether government bonds are 'safe' or not. The idea is that they are. The investor buys the bond at issue, receives the interest payments (or coupons) over the lifetime of the bond and then gets back their initial investment (or principal) upon maturity of the loan.

However, there are risks:

- **Credit, issuer, or default risk.** Western government defaults are rare (because they can just print more money to foot the bill) and such paper is therefore used as a benchmark, 'risk-free' rate. Any other bonds – corporate, emerging market and so on – of similar duration should offer a premium return to compensate the holder for the greater risk that the borrower

gets into trouble and cannot make the interest payments or return principal.

- **Inflation risk.** If the rate of inflation exceeds the coupon or yield on the bond, then the investor is effectively locking in a guaranteed real-terms loss.
- **Interest rate or market risk**. If inflation becomes entrenched and interest rates rise then a further risk comes into play since bond prices could fall as holders sell existing positions to buy new positions in new issuance, which will have to come with higher coupons to compensate for advances in headline borrowing costs. Price declines could erase a chunk of the income accrued.
- **Liquidity risk.** It is important to make sure the bond's issue size will be large enough so it can be easily bought and sold in the secondary market. The less liquid the paper, the higher the coupon should be to compensate the holder.

The coupon is always fixed and is based upon the issue price of the paper (usually 100). The yield will change according to the price, just as it would for a share.

As coupons get lower, or yields become thinner, the buffer against any potential capital loss in the event interest rates rise gets progressively smaller. This is where duration comes into play.

Macaulay duration measures the average weighted time to maturity of all coupon and principal payments.

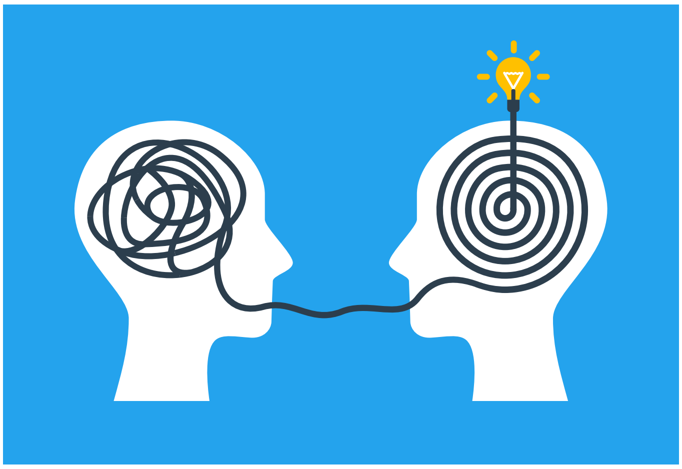
Modified duration quantifies interest rate risk and how much a bond or portfolio of bonds will move in price relative to a 1% shift in borrowing costs.

Note how that one percentage point rise in the UK 10-year gilt yield between January and October translated into an 8% price decline.

RISK AND REWARD

The issue therefore is not whether government bonds are risky or not, but whether the rewards on offer, in the form of the coupon or the running yield, compensate the holder for the risks involved.

In inflation becomes entrenched and stays elevated, the answer may well be 'no'. If an investor believes the storm will blow over and deflationary



forces will reassert themselves, then the answer may be 'yes,' especially after the recent sell-off.

Investors can also build a portfolio of bonds to help manage the risks:

Longer-dated bonds have longer durations, as the returns are more back-end loaded, so they will be more volatile, or sensitive to interest rate movements. Perpetual bonds, with no maturity date, are the most volatile bonds of all.

Lower-coupon bonds also have longer durations, and therefore be more volatile, as again the returns are more back-end loaded. Zero-coupon bonds have a duration that is the same as their maturity.

The opposite also applies: the shorter the life of the bond, or the higher the yield, the shorter the duration and the less the degree to which prices will move relative to interest rate changes. The UK two-year gilt lost just 1% in price while the 10-year lost 8% in that January-to-October market swoon.

Two-year gilts have lost much less ground than 10-year paper in 2021

Source: Refinitiv

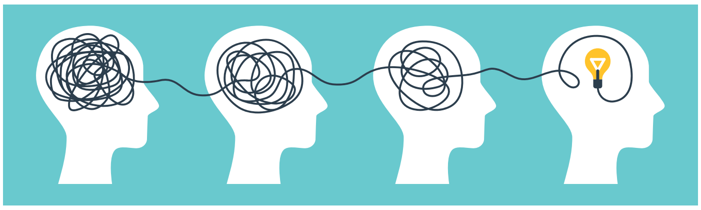
RUSS MOULD
AJ Bell Investment Director

Investors can also use bond funds to mitigate the dangers. They can own a range of them or pick a flexible bond funds that can put money to work across a wide range of fixed-income asset classes and not just one and therefore use its mandate to to tackle – and even benefit from – duration.

MIND THE SPREAD

The UK 2/10s yield curve is flattening again

Source: Refinitiv



One tool that investors can use to measure whether inflation or deflation is coming, is the spread between the two and 10-year gilt. If the market thinks a recovery and inflation is coming (and that central banks will actually raise interest rates), the spread may widen, and the yield curve steepen as rate rises are priced in. If it thinks a downturn or deflation are coming, then it may flatten as rate cuts are priced in.

Right now, the yield curve is flattening, even as inflation rises. Central bank manipulation of bond markets via quantitative easing could mean we are getting a false signal. But it could mean the gilt market is warning of the middle ground, the worst outcome of all – stagflation.


SIPPs | ISAs | Funds | Shares
AJBell
Youinvest
RETIREMENT YOUR WAY?
GET INVESTING
Open our low-cost Self-Invested Personal Pension for total flexibility and control over your retirement with free drawdown.
youinvest.co.uk
Recommended Provider Which? Investment Platforms May 2020
Recommended Provider Which? Self-Invested Personal Pensions July 2020
THE TIMES money mentor
CUSTOMER EXPERIENCE RATING
Investing & Pensions
GOLD AWARD
Autumn 2020
Capital at risk.
Pension rules apply.

Main Market	
Abrdn	29
Barclays	5, 21
Carnival	29
Chemring	15
Convatec	33
Ferguson	6
Future	23
Games Workshop	31
GlaxoSmithKline	15
Greggs	8
Hiscox	8
HSBC	5, 29
Kingspan	6
Lloyds	5
Luceco	14
Natwest	5
Prudential	8, 23
Rio Tinto	29
Royal Dutch Shell	8
Serco	23
Tesco	23
Travis Perkins	14
Unilever	33

AIM

AIM	
Brighton Pier	8
Clinigen	23
Jubilee Metals	23
Next Fifteen Communications	23
Serica Energy	21
Springfield Properties	21
Water Intelligence	34
Yellow Cake	6

Investment Trusts	
Alliance Trust	12
Geiger Counter	6
Gresham House Energy Storage Fund	6
Henderson High Income Trust	20
Henderson Opportunities Trust	21
Impax Environmental Markets	22
JPMorgan Global Growth & Income	29
Law Debenture	20
Pacific Horizon	20
Pershing Square Holdings	25
Scottish Investment Trust	29
Scottish Mortgage	20
Third Point Offshore	8

Funds	
Allianz Continental European	19
BlackRock Continental European	19
Fidelity Sustainable Water and Waste	35
Guinness Sustainable Energy	6
Liontrust Sustainable Future Managed Growth	20
Marlborough European Multi-Cap	20
Pictet Clean Energy	6
Pictet Water	35
Rathbone Ethical Bond	20
RobecoSAM Sustainable Water Equities	35
Schroder Sterling Corporate Bond	20
Slater Growth Fund	23
Slater Recovery Fund	23
Stewart Investors Asia Pacific Leaders Sustainability	20

ETFs	
iShares Global Water	36
L&G Clean Water	36
Legal & General Battery Value Chain	6
Lyxor World Water	36

Overseas shares	
Amazon	7
Apple	7
Coca-Cola	16
Meta Platforms	9
Vestas Wind Systems	6

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

9 Nov: Associated British Foods.

Half-year results

5 Nov: Kainos. **8 Nov:** Argentex, Cake Box, Sirius Real Estate.
9 Nov: Renewi, Warehouse REIT. **10 Nov:** Aveva, Marks & Spencer, Renold, Zoo Digital. **11 Nov:** Assura, Auto Trader, B&M European Value Retail, Burberry, Mediclinic, Norcros, QinetiQ, Syncona, Volex. **12 Nov:** Castings.

Trading updates

5 Nov: Beazley, International Consolidated Airlines.
9 Nov: Direct Line, Meggitt, Persimmon, Watches of Switzerland. **11 Nov:** Taylor Wimpey. **12 Nov:** AstraZeneca.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

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

CONTRIBUTORS Danni Hewson, Laith Khalaf, Russ Mould, Tom Selby, Laura Suter, Rachel Vahey

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

PRODUCTION
Head of Design Darren Rapley
Designer Rebecca Bodi

CONTACT US:
support@sharesmagazine.co.uk

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.

All chart data sourced by Refinitiv unless otherwise stated