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SHARES

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INFLATION BUSTING DIVIDENDS

6 stocks and funds providing a decent, growing income

M&A Will BT and Vodafone be next after Telecom Italia takeover bid?

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

2022 earnings forecasts in doubt amid parts shortage

New lockdowns in parts of Europe don't bode well for market sentiment

Austria imposing a full lockdown and Germany possibly following suit is not what the markets want to hear. Despite the ongoing rollout of Covid vaccinations, this pandemic is still raging on, and with it comes more disruption to consumers, businesses and the flow of goods.

We've just seen what happens when companies trading on high earnings multiples disappoint the market – their share prices take a big hit. What was already looking like a mixed year ahead for earnings growth is now looking even more fragile.

Steam engineer **Spirax Sarco (SPX)** has enjoyed very strong demand for its products and services in recent years, and had been seen as a resilient business during the crisis – up until now.

It makes pumps and tubes essential to Covid-19 vaccine production, among other items. Its share price retreated 5% on 17 November after saying it had been impacted by shipment delays.

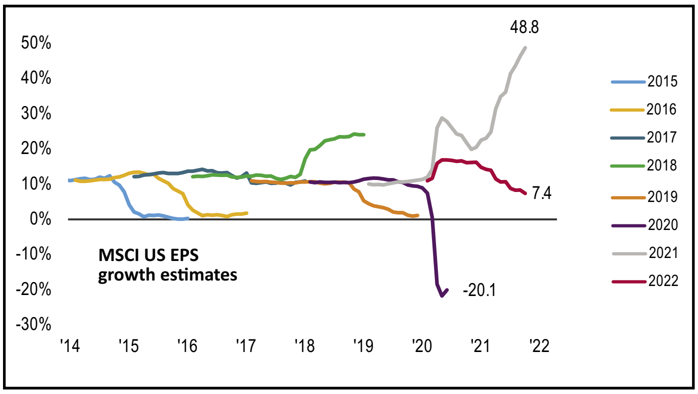
Somewhat perplexing, Spirax didn't downgrade earnings forecasts which leaves it vulnerable to further share price setbacks if it cannot hit those full year numbers.

In general, a company trading on more than 25 times forecast earnings doesn't want to be letting investors down as the backlash can be brutal. The higher the rating, the greater the potential fall.

Fellow engineer **Rotork (ROR)** is in a similar situation to Spirax – demand is good but there are risks around fulfilling orders due to delays in getting components. It was trading on 30 times forward earnings when it issued a warning on 18 November, resulting in a 7% share price slump on the day.

It's been quite a good year for a lot of companies, meaning investor expectations are high. Bank of America says the analyst consensus forecast for the MSCI US index's earnings per share growth in 2021 is 48.8%. Although this only relates to the US market, the trend is relevant to investors worldwide.

Profit growth to go from 48.8% to 7.4%



Source: BofA Global Investment Strategy, Datastream

That level of growth is significantly more than you might expect for a 'normal' year, but one must consider that the previous year saw so much disruption, causing a 20.1% drop in earnings for the MSCI US index, so 2021's figure was a mixture of recovery and growth.

2022 is looking to be a tougher slog, with the consensus for US corporate profit growth dropping to 7.4%. If inflation continues to strengthen there is a real risk these profit expectations will have to be downgraded.

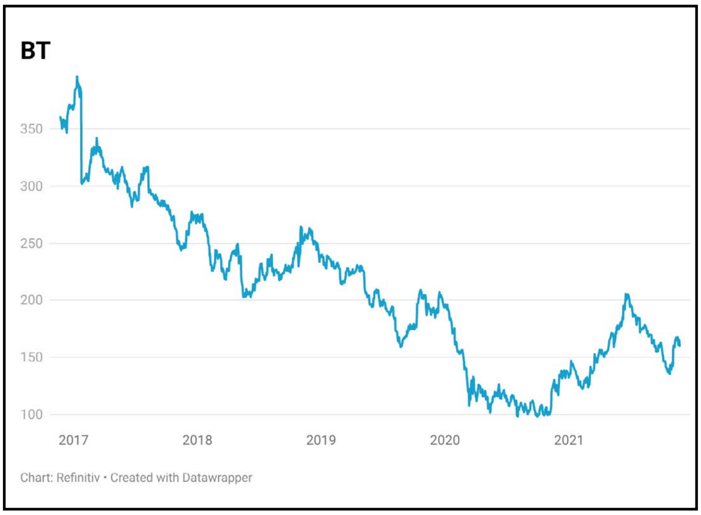
Don't miss the 16 December 2021 issue of *Shares* which will feature our in-depth look at the key issues facing investors for the year ahead.

Until then, make sure you read beyond the highlights of any company announcement as the devil is in the detail. As we saw with Spirax and Rotork, both talk about strong demand but anyone who just flicked through the highlights would have missed the important bits further down in the announcements which triggered the share price declines.

By **Daniel Coatsworth** Editor

Will BT and Vodafone be next after Telecom Italia takeover bid?

Private equity eying out of favour sector could see number of big names leave stock markets



KKR's €33 billion offer for Telecom Italia has ignited speculation that the European telecoms sector is now firmly in the sights of private equity buyers, with shares in **BT (BT.A)** and **Vodafone (VOD)** in the spotlight.

Telecom Italia said the US buyout fund had offered €0.505 a share in cash, a rough 45% premium to the target company's closing price on 19 November. That gives the company an equity value of €10.7 billion. It has roughly €22.5 billion of net debt. If successful, it would represent one of the largest private equity buyouts of a European company in history.

There is speculation that a buyout battle could emerge for Telecom Italia, with rival private equity investors such as CVC and Advent thought to be watching developments.

It also raises the prospect of private equity firms approaching other European telecoms operators, including BT and Vodafone. 'If private equity is starting to sniff around this sector then it suggests there could be value to be found in other names; it underlines just how unloved a corner of the market it has become,' says Neil Wilson of Markets.com.

Other experts agree. 'The Italian deal may stir fresh bid speculation, especially as private equity is cash rich, interest rates are low, money is cheap and financial buyers are on the prowl for companies that can consistently generate cash,' says Russ Mould, investment director at AJ Bell.

There has been a lot of speculation about a possible takeover of BT in recent months after Patrick Drahi, the French billionaire and founder of Altice, began building up a position earlier this year. Drahi currently owns a 12.1% stake in BT, which he bought this summer through the entrepreneur's new vehicle Altice UK, making him BT's largest shareholder ahead of Deutsche Telekom which owns 12.06%, a stake Drahi has said he would be interested in acquiring.

The telecoms tycoon has previously said that he holds the board and management team of BT in high regard and is supportive of its strategy, denying any immediate plans to launch full blown takeover of the UK group.

In June, he promised BT that Altice would not bid for the company for at least six months under UK takeover rules, an agreement which expires on 10 December. However, Altice could make a bid for BT before that date if it is agreed with the board, or if another company were to make an offer.

Analysts at investment bank Berenberg last week flagged BT's UK fibre network attractions. They said: '(BT's) Openreach currently enjoys a circa 80% market share in UK fixed telecoms infrastructure, this being about 60% in the half of the country where Virgin Media O2 exists and 100% elsewhere.' [SF]

DISCLAIMER: AJ Bell referenced in this article is the owner and publisher of Shares magazine. The author (Steven Frazer) and editor (Daniel Coatsworth) own shares in AJ Bell.

Could lockdown winners soon get a second wind?

US investors are already switching out of 'recovery plays'

Just as the US Treasury bond is a key driver of global risk appetite, watching trends in US equities is always a useful guide to what changes we might expect to see in the UK and Europe at some stage.

In recent trading sessions, US investors have begun rotating out of their holdings in internationally exposed 'recovery' stocks and into 'Covid winners' again.

This shift has undoubtedly been prompted by the recent surge in virus cases in Europe, in particular Germany, Austria, Italy and the Netherlands. With hospitals once again filling up with patients, government restrictions are back as European countries try to fight a fourth wave of infections.

In Germany, Europe's largest economy, chancellor Angela Merkel has said the latest outbreak is worse than anything the country has experienced so far and warned hospitals could soon be overwhelmed.

So far, Covid has killed more than 5 million people worldwide with more than 375,000 new cases being registered every day. While deaths in Europe are less than a quarter of the levels seen this time last year, they are rising rapidly.

Perhaps because cases in the UK have been relatively high for some time but the hospitalisation rate has been relatively low, we get the sense investors have abandoned the stocks which initially benefited from lockdown and fully embraced the 'reopening trade' on these shores.

A quick scan of the FTSE 350 index, which has traded sideways in the last month adding just 11 points or 0.3% since 23 October, confirms that thought.

Among the best-performing stocks of the last four weeks are rejuvenated high-street retailer **Marks & Spencer (MKS)** up 38%, and bus and rail firm **FirstGroup (FGP)** up 12%.

In stark contrast, some of the worst performers

RECENT FTSE 350 WINNERS & LOSERS

Stock	1 month return	Year to date return	2020 return
Marks & Spencer	38%	82%	-36%
Watches of Switzerland	27%	145%	54%
Royal Mail	20%	49%	49%
FirstGroup	12%	37%	-41%
Frasers	11%	55%	-2%
AO World	-37%	-77%	355%
Flutter Entertainment	-23%	-26%	64%
Games Workshop	-13%	-18%	84%
888 Holdings	-9%	23%	73%
Plus500	-9%	-13%	64%

Data correct as of 23 Nov 2021

Source: Sharepad, Shares magazine • Created with Datawrapper

over the past month have been former Covid winners, in particular online retailers. White goods seller **AO. World (AO.)**, which outperformed last year by gaining over 350%, is down 37% in a month and 77% lower this year.

Online betting and financial firms such as **Flutter (FLTR)** and **Plus500 (PLUS)** are down by as much as 23% over one month, while **Games Workshop (GAW)**, one of the most unexpected winners of lockdown, has lost 13% in the past month and is also down year to date.

While it seems as though it's full steam ahead for Christmas, thanks to the rollout of booster jabs, investors should keep an eye out for any signs of a drop in confidence or rotation back into lockdown beneficiaries. [IC]

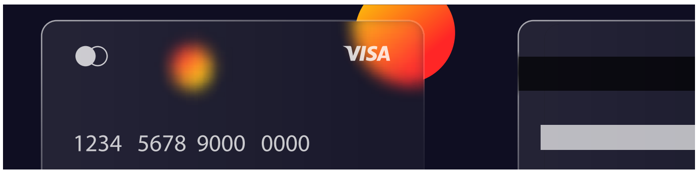
Amazon's Visa dispute could shape digital payments power struggle

Online retail giant may be flexing muscle to secure better deal in larger markets

Amazon's spat with credit card giant Visa could shape the power struggle between merchants and payment processing providers. Amazon last week declared it would no longer accept Visa credit cards issued in the UK from 19 January 2022, citing high payment fees.

Visa and Mastercard announced increases to the interchange rates applicable to payments between the UK and the EU after Brexit was formalised this year. For digital payments where a physical card is not present, the fees were raised to 1.15% for debit transactions and 1.5% for credit transactions from 0.2% and 0.3%, respectively.

That planned fee hike by both credit card providers may suggest that Amazon's stance in the UK, and previously in Singapore, is part of a wider negotiating tactic with the online retail platform looking at fees in the US. Amazon is also looking at its options for its own-branded credit card,



currently powered by Visa.

Visa's share price has fallen 9% since the Amazon announcement but analysts at Piper Sandler estimate the retailer accounts for less than 1% of Visa's UK credit card volumes.

The digital payments space is changing with mobile payment options like PayPal-owned Venmo and buy now, pay later financing operators chipping away the dominant market share of credit cards, especially among younger shoppers. Amazon partnered with BNPL provider Affirm in August to help consumers spread the cost of purchases, while Visa has been also testing the BNPL space with the likes of Sweden's Klarna. [SF]

Roblox shares jump 56% in a fortnight on metaverse craze

Investors see it as a play on virtual worlds

SHARES IN GAMING platform Roblox have risen by 56% in value since 9 November when it reported strong demand and outlined a road map to grow its platform to 1 billion users.

Roblox has become a meme stock related to the huge demand for everything related to the metaverse – a virtual world that allows people to exist in an alternative 3D reality.

The parent company of social media giant Facebook recently changed its name to Meta Platforms while gaming microchip manufacturer Nvidia launched its Omniverse platform to serve the development of virtual platforms.

Following Roblox's investor day, investment bank Morgan Stanley raised its price target on the stock from $88 to $150 based on the firm's 'early metaverse leadership'.

Roblox believes all leading brands will need a 'Roblox strategy' within the next three to five years.

Last week athletic footwear and apparel brand Nike became the latest brand to join the Roblox platform after creating a virtual playground called Nikeland which allows players to compete in mini games including dodgeball and tag.

Roblox also plans to expand its appeal towards older age groups and beyond gaming. For example, it recently launched listening parties where artists can premiere a new album. [MGam].

Energy storage companies power up for UK stock listings

Superdielectrics and Gelion are both looking to disrupt the market in different ways

COP26 reinforced the move away from gas, coal and oil, while the energy crisis this year has partly been caused by the unpredictability of renewables – with less windy weather leading to a lower contribution from wind power.

The solution to the intermittent nature of renewable energy supply is energy storage, providing a reliable means of storing up energy to smooth out periods when the sun isn't shining and/or the wind isn't blowing.

Two companies are set to join the UK stock market in the coming weeks which are both aiming to tackle this problem from different angles.

Expected to list in early December, **Superdielectrics** plans to raise £20 million, and reports suggest it expects to command a market valuation in the region of £350 million.

Backed by **TP ICAP (TCAP)** founder Michael Spencer, it is in the process of developing supercapacitors which use an electric field instead of chemicals that feature in batteries such as lithium ion and lead acid ones currently used to store energy from renewables and to power electric vehicles.

The firm is focused on 'superdielectric' materials, over which it has built up considerable intellectual property, which can store up to 10,000 times more electricity than existing solutions.

Principles behind the development of the humble soft contact lens are being used in this technology and Superdielectrics CEO Jim Heathcote, who previously headed up hydrogen play **ITM Power (ITM:AIM)**, tells *Shares* that 'this is the culmination of many years of work'.

'I've been looking at energy storage for 25 years and our director of research (Donald Highgate) around 50 years. Our supercapacitors have the

ability to charge very quickly and discharge very quickly and they're safe, they could be used for lots of applications.'

Heathcote says the funds being raised alongside the listing are to position the business for a potential commercial negotiation in two years' time once the company has increased the energy density of its supercapacitors.

Coming to the UK stock market in late November is **Gelion** which is perhaps less revolutionary in its approach but still potentially disruptive.

The Australian outfit, founded as a spin-out from Sydney University by professor Thomas Maschmeyer in 2015, is reportedly looking to raise £16 million to commercialise its zinc-bromide batteries.

CEO Andrew Grimes describes these as 'work horses' in the sense they can apparently cope with higher temperatures and are tougher and more efficient than lead acid and lithium ion batteries. Unlike the latter, Gelion's batteries are relatively easy to recycle.

They aren't suitable for mobile applications though, with the focus instead on renewables energy storage. The company is also exposed to electric vehicles though through nano-structured additives which it says could boost the performance of lithium ion batteries. [TS]

The smart way to play a rebound in the Chinese stock market

JPMorgan China Growth and Income Trust has a good track record and pays decent dividends

The MSCI China index is down by more than 20% over the past three months in response to regulatory clampdown in the country and a series of downgrades to Chinese growth forecasts. This has provided further ammunition to sceptics of the Chinese economic miracle, who argue that investing in the region is an increasingly risky proposition.

However, there is a compelling argument that we have reached an inflection point for Chinese equities.

JPMorgan China Growth and Income Trust (JCGI) offers investors an interesting play on Chinese companies that are benefiting from the transition to a more consumer driven economy. It pays dividends every quarter.

The trust has an impressive track record of consistently outperforming its MSCI China benchmark by a significant margin on a three, five and 10-year basis. It currently offers a 4.1% yield, and trades on 3.7% discount to net asset value.

WHY THE RECENT SETBACK?

Investor sentiment in the region has been undermined by a wave of policy tightening and tougher regulation targeting sectors from property to technology. These fears have been compounded by concerns that Evergrande, the world's most indebted property firm, will default and cause contagion in the Chinese banking sector.

JPMorgan strategist Tai Hui says there are two underlying motives behind the recent regulatory changes imposed by the Chinese government. First, common prosperity is designed to reduce the proliferation in income inequality. This is perceived as being a potential threat to social stability.

Second, several of the policy changes are intended to arrest the decline in the Chinese birth rate. The rising costs of education and housing are believed to have contributed to this trend.

According to Hui, while attempting to curb monopolistic

JPMorgan China Growth & Income: Top holdings

STOCK	SECTOR	% OF PORTFOLIO
Tencent	Communication Services	9.2%
Meituan Dianping	Consumer Discretionary	5.2%
Alibaba	Consumer Discretionary	4.4%
WuXi	Health Care	4.3%
Pinduoduo	Consumer Discretionary	3.3%
Bilibili	Communication Services	2.5%
Contemp Amperex	Industrials	2.4%
NetEase	Communication Services	2.4%
China Merchants Bank	Financials	2.4%
Shanghai Baosight Software	Information Technology	2.2%

Source: JPMorgan • Created with Datawrapper activities, these initiatives are far from being inherently anti-business. He adds: 'The government is highly cognisant that private enterprise has driven the rapid rise in living standards over recent decades.'

CHINA MARKET VOLATILITY IS NOT NEW

Hui highlights that over the last 10 years there have been four periods of heightened Chinese equity market volatility.

The first was between April and September 2011, when the market experienced a peak to trough correction of 30%, the second during May 2015 and February 2016 was particularly savage with a peak to trough correction of 40%. This was followed in January to October 2018 by a more modest market retracement of 30% (peak to trough).

Hui believes that the current pullback in the MSCI Chinese index which began in February and currently represents a 23% decline, is 'comparable with previous market corrections, if not a little less aggressive'.

ENCOURAGING OUTLOOK

'If you look at the performance, one, three and six months after the market trough, typically we get very respectable returns,' says the JPMorgan strategist.

'I expect economic data to pick up in the first quarter or at least the first half of next year, and that fits in quite nicely with the experience of the Chinese markets. When growth starts to improve you should be expecting a better performance from the Chinese market.'

KEY PORTFOLIO THEMES

JPMorgan China Growth and Income Trust fund manager Rebecca Jiang says her portfolio is geared to secular growth sectors including technology and healthcare.

She believes there are two key drivers that will benefit the technology sector. First, the Chinese manufacturing sector needs to become smarter and more digitised. This will facilitate its transition from being labour intensive and low value-added, into an industry creating higher value-added products and services. Second, rising labour costs are driving the adoption of automation to increase efficiency.

Carbon neutrality is another key investment theme for the trust, given China's commitment to both peak CO_2 emissions before 2030 and carbon neutrality by 2060.

Jiang emphasises that 'Shanghai has an electric vehicle penetration rate of over 35%, which is significantly higher than Europe'. She adds: 'China has the most comprehensive electric vehicle supply chains, it is very competitive on a global scale, and it is benefiting from increasing market share.'

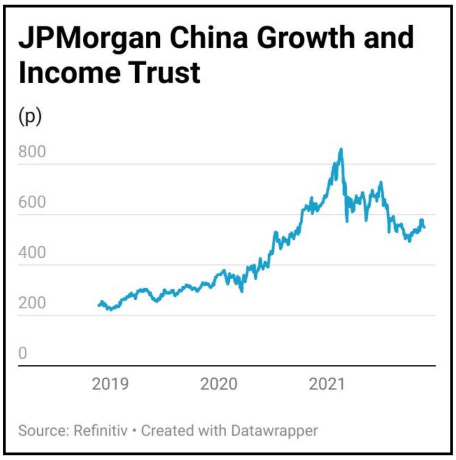
The final theme is consumer-related businesses. Jiang suggests that as China consumers become more affluent, they demand better and healthier lives and products. Demand for innovative quality drugs and healthcare services will enable Chinese companies exposed to these areas to grow ahead of GDP.

RECENT PORTFOLIO ACTION

Jiang has taken advantage of recent market volatility to increase the trust's weighting to technology conglomerate Tencent and video sharing website Bilibili.

Outside of technology Jiang has also added to her position in residential property management company Country Garden Services. Jiang likes the sticky nature of the business, and the 'abundant scope for growth due to consolidation'. She also argues there is scope for the group to provide additional higher margin services to property owners.

This part of the world should be considered higher risk from an investment perspective and so the JPMorgan trust is only suitable for individuals who understand those risks and are patient. [MGar]



Growth, profit and M&A to drive CentralNic higher

The internet services firm is increasingly making investors sit up and take notice

CENTRALNIC
BUY
(CNIC:AIM) 143p
Market cap: **£361 million**

Small cap internet expert **CentralNic (CNIC:AIM)** has a gold standard buy and build strategy and enjoys strong levels of organic growth. It also has high levels of recurring revenues that frequently throw off more cash that adjusted earnings before interest, tax, depreciation and amortisation.

Despite these attractions, investors can still buy the stock on what one analyst has called a 'pedestrian valuation'. The current year has seen net debt cut by $6.4 million despite spending $15 million on acquisitions and earnouts of past deals, leaving the business on an enterprise value of £302 million.

That equates to a 2021 EV/EBITDA multiple of around 11 versus analyst estimates for operational peers of more than 18 times. The price to earnings multiple for 2022 stands at 17.4.

CentralNic provides the tools businesses need to thrive online, offering website registry services, distribution, and strategic consultancy for various types of internet domain names from a single platform.

This is a game of scale, the bigger an operator is and the wider its reach, the more powerful its model and the better the profit growth. That helps explain 14 acquisitions since the company joined the London market in 2013, including KeyDrive in July 2018 for £33.6 million, Team Internet in December 2019 for £36.1 million and £28 million spent on Polish internet services businesses Zeropark and Voluum in September 2020. Funding is provided through a mix of equity raisings, bank debt and bonds.

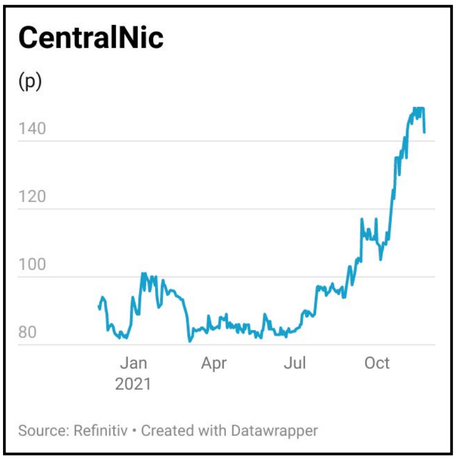
So far in 2021, it has acquired German company Wando Internet Solutions, bolstering its online marketing arm by adding social marketing, display advertising and search engine marketing.

This is an important shift because online marketing is faster growing and offers higher profitability. In the nine months to 30 September 2021 CentralNic's online marketing operations saw revenues up 129% to $94.1 million with organic growth of 47%, helping the overall business to post its largest organic growth ever of 29%.

Around $10 million has been invested in new staff and systems to drive operational efficiencies.

The internet services industry is dominated by US players such as GoDaddy and Verisign, but it is also hugely fragmented, which leaves an abundance of potential future acquisitions for CentralNic to hoover up.

Forecasts for 2022 of 10% growth imply earnings per share of $0.11. Estimates should be bolstered by opportunistic acquisitions as they emerge. Improving operational leverage will also help CentralNic towards its ambitions for a place at the top table of internet service companies. [SF]



DOTDIGITAL

(DOTD:AIM) 187p

Gain to date: 10%

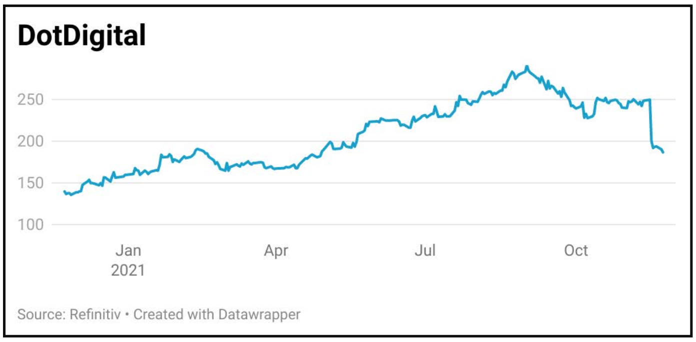
Original entry point:

Buy at 170p, 4 March 2021

THE MARKETING TECHNOLOGY company took one hell of a hammering last week that left analysts across the board scratching their heads. **DotDigital (DOTD:AIM)** had already indicated a better-than-expected finish to a record year so when confirmation came in the shape of record revenues, organic growth of 23%, profit and free cash flow helped by the pandemic accelerating the digital switch, the fact the stock plunged 25% was little short of gobsmacking.

'We think this arose from the company guiding to a more normalised trading environment in full year 2022,' says Berenberg, trying to apply some rationale to the sharp fall.

There was clear progress with the firm's three pillars strategy, delivering a 16% rise in average revenue per customer from more users, 22% international revenue growth, and expansion across channels and product modules. Chief executive Milan Patel is particularly keen on adding tools in the loyalty platform space, something to look out for down the line.



SHARES SAYS: ↗

DotDigital and the marketing tech space has been a real Covid winner but there remains enormous post-pandemic scope for ongoing growth. Use the sharp sell-off to buy shares at a cheaper price. [SF]

FRONTIER DEVELOPMENTS

(FDEV:AIM) £16.88

Loss to date: 25.5%

Original entry point:

Buy £22.65, 22 July 2021

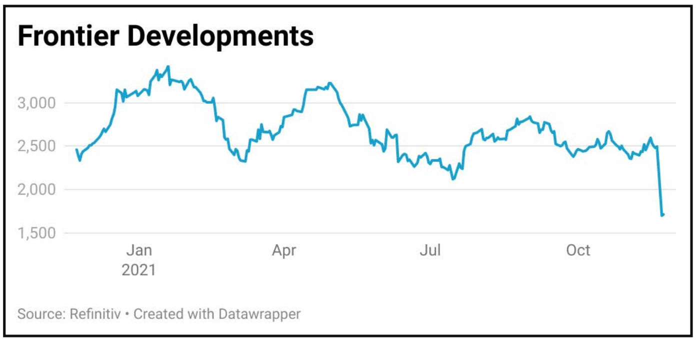
INVESTORS MIGHT BE prepared to give management the benefit of the doubt after one downgrade to expectations, but a second one is tougher to swallow as it so proved for **Frontier Developments (FDEV:AIM)**, whose shares dived 32% on 22 November after it reduced full-year revenue guidance by around 18%.

Despite encouraging pre-order sales of new game *Jurassic World Evolution 2* with unit volumes on each platform comparable to levels experienced ahead of the launch of *Jurassic World Evolution* in 2018, PC sales were lower than anticipated.

This was at odds with trends seen on other platforms with sales on PlayStation and Xbox consoles of both digital and physical versions coming in as expected.

Management believes the problem was one of timing with the launch coinciding with several other rival games.

The company is pinning its hopes on a Christmas sales lift and a further boost in June when the latest *Jurassic World* movie is released. The company believes the first year's revenues for JWE2 will eclipse those for JWE1.



SHARES SAYS: ↗

The share price move was an overreaction to what may prove, in all probability, to be a short-term timing issue. The strong roster of game releases including the company's first foray into F1 next year keep us buyers of the stock. [MGam]

RUFFER INVESTMENT
(RICA) 299p

Gain to date: 4.1%

Original entry point:

Buy at 287.25p, 8 July 2021

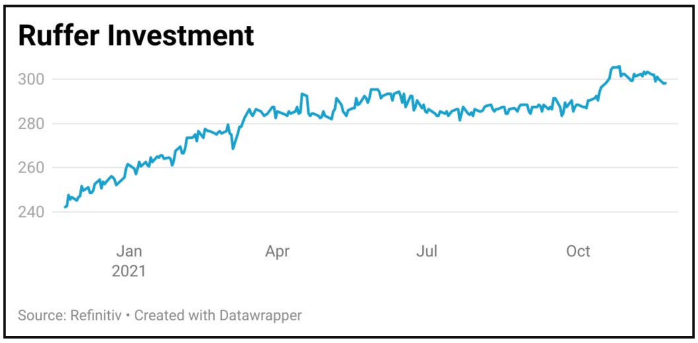
ANYONE WHO FOLLOWED our summer recommendation to buy **Ruffer (RICA)** is now 4.1% in the money.

Shareholders can buy new shares slightly below the market price at 296.5p on a one-for-four basis, under an offer closing on 1 December, but some applications need to be in by 5pm on 30 November. Any shares left over will be made available to investors via an offer running concurrently on mainstream investment platforms.

Ruffer's managers believe investors are entering a new world of inflation volatility and deeply negative real yields. Its strategy has never been more relevant to protect against inflation and financial repression, where saving rates are much lower than inflation.

Managed by Hamish Baillie and Duncan MacInnes, Ruffer has a proven track record of making money in up and down markets and is seeking to raise up to £167 million. Baillie informed *Shares* that the proceeds will be deployed 'fairly speedily' and explained that investors are buying into the trust's pre-existing asset allocation.

This spans shares and other assets including inflation-linked bonds and gold.



SHARES SAYS: ↗

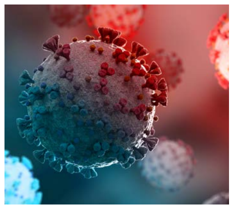
Savvy investors should participate in the share offer. Buy. [JC]

EUROMONEY
(ERM) £10.02

Loss to date: 9.9%

Original entry point:

Buy at £11.12, 7 October 2021



OUR 'BUY' CALL on media group **Euromoney Institutional Investor (ERM)** is off to a shaky start, but the better-than-expected set of full year results published on 18 November include reasons to stay positive.

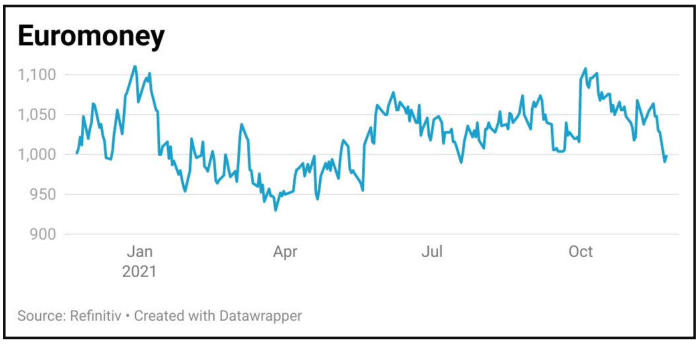
Concern over how mounting Covid cases might impact a recovery in its events business may be behind some of the recent weakness in the share price.

However, the latest results covering 12 months to 30 September saw Euromoney report a 13% rise in adjusted pre-tax profit to £61.4 million, ahead of a consensus forecast of £58.5 million. In a similar vein, the total dividend distribution of 18.2p per share was up 60% on the prior year and exceeded a consensus estimate of 17.1p.

Consultancy Megabuyte commented: 'A better-than-expected second half performance underlines the increasing demand for its data, analysis and intelligence in key markets.

'We also expect Euromoney to continue to bolt on subscription-based businesses in line with its 3.0 growth strategy (embedded in workflows, core target industry and solution-centric).

'Positively, the outlook has notably improved, although with an air of caution around events in the short term.'



SHARES SAYS: ↗

You'll need to be patient with Euromoney. The shares are still a buy. [TS]

ADVERTISING FEATURE

New PM, new dawn for investing in Japan?

By Masaki Taketsume, fund manager, Schroder Japan Growth Fund plc

Fumio Kishida inherits a much brighter situation than his predecessor as the state of emergency is lifted. We look at what this means for investing in Japanese equities.

Japan's ruling Liberal Democratic Party (LDP) has chosen its new leader. Fumio Kishida, a former foreign minister, won the leadership contest and has become the new prime minister (PM). He is seen as something of a continuity candidate, fending off the challenge of Taro Kono who some had perceived as the more dynamic, business-friendly option.

However, any differences between the two candidates are a question of nuance. They are, after all, both established LDP politicians and the party is expected to win the general election that will be held at the end of October.

The change of PM has raised some concerns that Japan may be heading back into an era of political instability and short prime ministerial terms. We don't see this as a particular worry. After all, Shinzo Abe was Japan's longest-serving PM (with his second term lasting from 2012 until 2020), so any subsequent incumbent was always likely to serve a shorter term in office.

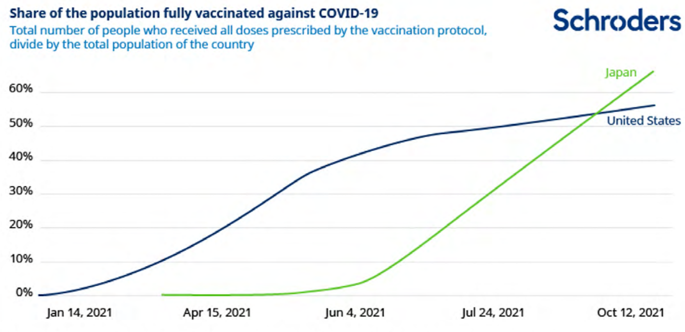
Benign backdrop for Kishida

Abe's successor, Yoshihide Suga, became PM only a year ago and immediately faced two major challenges: the Covid-19 pandemic and hosting the Olympics Games, with the former a serious complication to the latter.

Public dissatisfaction with the slow roll-out of Covid vaccines in Japan was one of the primary reasons for Suga stepping down recently. The slow pace of vaccinations combined with new waves of coronavirus to see successive states of emergency imposed on most of the country this year.

These weighed on domestic economic activity and also sent out an inconsistent message about the government's priorities as the Olympic Games were held against the backdrop of a state of emergency in Tokyo.

However, the vaccination campaign has accelerated substantially in recent months. Japan has now fully vaccinated a larger share of its population than the US, despite a much slower start.



Source: Official data collated by Our World in Data - Last updated 13 October 2021, 12:30 (London time)
Note: Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries. 602816

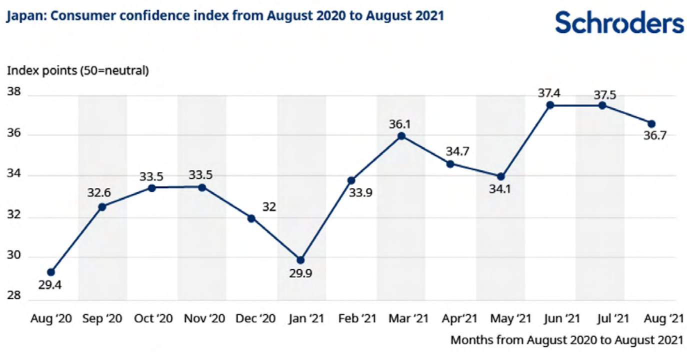
The pick-up in the pace of vaccinations means Japan was able to lift its state of emergency - which covered most of the population - at the end of September. While Japan has benefited from the broader global economic recovery this year, we should now start to see the domestic economy re-open and recover.

Restaurants in certain areas still need to close relatively early, and some are restricted from serving alcohol unless they have certification for their anti-Covid measures. However, domestic travel is now back on the agenda and large-scale events can go ahead with a greater number of spectators.

Domestic drivers to benefit small caps

We expect smaller companies in particular to benefit from this domestic re-opening. Small caps generally have much greater exposure to the domestic economy than their larger peers.

Companies operating in the service sector could now see stronger demand as travel, tourism, leisure and other consumer industries see demand and activity pick up. Japanese consumer confidence is gradually recovering and this should bode well for companies exposed to the domestic consumer.



Source: Statista 2021. 602816

Small caps are a part of the market that we typically like, and many small caps are exposed to the domestic service sectors where we now anticipate a strong recovery. As a long-term fundamental investor, there is often a greater opportunity to add value given how under-researched some of the companies are, compared to the larger Japanese companies.

Policy to continue, but environment rises up agenda

In terms of government policy under Mr Kishida, we largely anticipate a continuation. A new supplementary budget and further stimulus is already under discussion. This stimulus package will likely focus on additional support for those who suffered financially during the pandemic. Some of the headline measures regarding these may be announced before the general election although the detail will follow later.

One area where we have seen some change this year is on environmental issues. With COP26 on the horizon, Japan is among a number of countries that have pledged to reach net zero carbon emissions by 2050.

What's more, outgoing PM Suga also declared a more ambitious goal: that of cutting emissions in 2030 by 46% relative to 2013 levels. The debate about how Japan will achieve these targets look set to intensify.

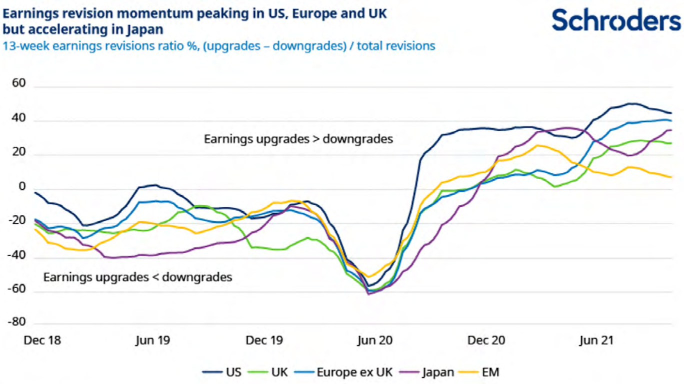
We've already seen in recent years how governance factors have become more important and are being reflected in share price performance. We anticipate a similar impact from environmental and social factors going forward. It is perhaps relatively early days but we need to be prepared for potential changes in corporate and investor behaviour on these issues.

Overall, the Japanese market is one where earnings momentum is still accelerating, compared to other regions where upward revisions may have peaked as the chart below shows. This corresponds to the path of Japan's slower vaccine roll-out and longer-lasting restrictions.

We think the political noise around changes in prime minister should not distract investors from the brighter economic picture in the domestic Japanese market.

Earnings revision momentum peaking in US, Europe and UK but accelerating in Japan

13-week earnings revisions ratio %, (upgrades – downgrades) / total revisions



Forecasts included are not guaranteed and should not be relied upon.
Source: Datastream Refinitiv, IBES, MSCI and Schroders. Data to 31 August 2021. Notes; 13w earnings revisions = sum of 13 week positive minus negative 12m forward EPS revisions / total revisions. 602816

For more information on investment trusts at Schroders, subscribe to our newsletter.

Important information

US retail titans smash forecasts as Christmas comes early

Retail sales exceeded expectations and bumper demand is outweighing supply issues for the star turns across the pond

Investors in US retail names have grounds for optimism given the latest retail sales figures from the across the pond and positive earnings updates from dominant players including Walmart.

US retail sales rose by 1.7% in October, according to the Commerce Department, beating forecasts of 1.4%, as shoppers start their holiday shopping early to avoid empty shelves as the pandemic squeezes supply chains.

High inflation has yet to dampen spending with rising household wealth, driven by a strong stock market and house prices, savings accrued during the pandemic and wage gains, shielding American consumers from the higher cost of living.

However, consumers are now eating into those savings as they spend on leisure activities or return to costly commutes at a time when food and fuel prices are rising sharply.

Investors need to consider how much of the past month's spend was brought forward as gift-givers rushed to make sure they had what they want to sit under their Christmas trees amid warnings over supply shortages.

At the same time, it is important to note that scale matters in retail and the likes of Walmart, Target, Home Depot, Lowe's and Costco have the resources to charter ships that smaller competitors don't, which is helping them to mitigate challenges ranging from port congestion to staff shortages.

KEEPING PRICES LOW

Despite delivering impressive third quarter performances which beat Wall Street expectations, shares in both Walmart and Target fell after they posted earnings as the pair pledged to absorb some of the higher costs of shipping, materials and wages rather than pass them on to customers.

Walmart and Target are playing the long game, attracting new customers with sharp prices to build consumer loyalty and maintain sales momentum, although failing to pass on price increases comes at the expense of margin and short-term profitability, which is irking impatient investors.

Third quarter sales were up by more than analysts had been anticipating at Walmart, one of *Shares*' running *Great Ideas* selections, which has 'Every Day Low Price' at the cornerstone of its strategy.

The company reported 9.2% growth in US comparable sales excluding fuel for the 13 weeks ended 29 October, up by 15.6% on a two-year basis, and raised full year guidance.

Walmart also reported US e-commerce sales growth of 8% for the quarter and impressive 87% growth on a two-year basis, and assured that its US inventory was up 11.5%, which is reassuring with Christmas approaching.

'Our momentum continues with strong sales and profit growth globally,' said Doug McMillon, president and CEO of the US supermarket giant.

'Our omnichannel focus is pushing digital penetration to record levels. We gained market share in grocery in the US, and more customers and members are returning to our stores and clubs around the world. Looking ahead, we have the people, the products, and the prices to deliver a great holiday season for our customers and members.'

MORE THAN FOOD

General merchandise seller purveyor Target also has keen pricing at its core – the company's tagline is 'Expect More, Pay Less' – and uses its groceries business to drive traffic to its stores, where it can sell consumers higher margin non-food products.

Third quarter comparable sales grew 12.7%, on top of the 20.7% growth generated in Q3 a year earlier, reflecting like-for-like store sales growth of 9.7% and comparable digital sales growth of 29%.

Confident it is both stocked and staffed for Christmas, Target also upgraded its fourth quarter comparable sales guidance to high-single digit to low-double digit growth, up from previous guidance for a high-single digit increase.

Chief executive Brian Cornell continues to expect a full year operating income margin of 8% or higher from Target.

US Retail Names

Company	Market value
Home Depot	$426 billion
Walmart	$394 billion
Target	$124 billion
Lowe's	$176 billion

Source: Google Finance, 18 November 2021 • Created with Datawrapper

'Following comparative growth of nearly 21% a year ago, our third quarter comparative increase of 12.7% was driven entirely by traffic, and reflects continued strength in our store sales, same-day digital fulfilment services and double-digit growth in all five of our core merchandising categories,' says Cornell.

RIDING THE DIY BOOM

While shares in Walmart and Target weakened, Home Depot's stock topped the S&P 500 leader board following forecast-beating third quarter sales and earnings.

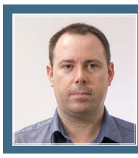
By responding to the elevated DIY demand engendered by the pandemic the home improvement giant's market value has overtaken Walmart's for the first time.

And despite concerns that DIY-ers might have done all they needed to during the pandemic, Home Depot continues to benefit from the tailwinds of US housing market strength and the structural work from home trend.

Home Depot's same-store sales grew by a forecast-beating 6.1%, despite a testing prior year comparator, with US like-for-like sales up 5.5%, as customers splashed the cash on home improvement projects, with management flagging continued strong demand as the company entered the fourth quarter.

Smaller rival Lowe's beat expectations for third quarter sales and earnings alike, and once again raised its 2021 outlook after a holiday shopping boom came early and results were boosted by online sales and high demand from contractors and electricians. Same-store sales edged up by 2.2%, confounding expectations for a decline against demanding comparatives.

'Our momentum continued this quarter,' said CEO Marvin Ellison, 'with US sales comps up nearly 34% on a two-year basis, as our Total Home strategy is resonating with the Pro and DIY customer alike.'



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

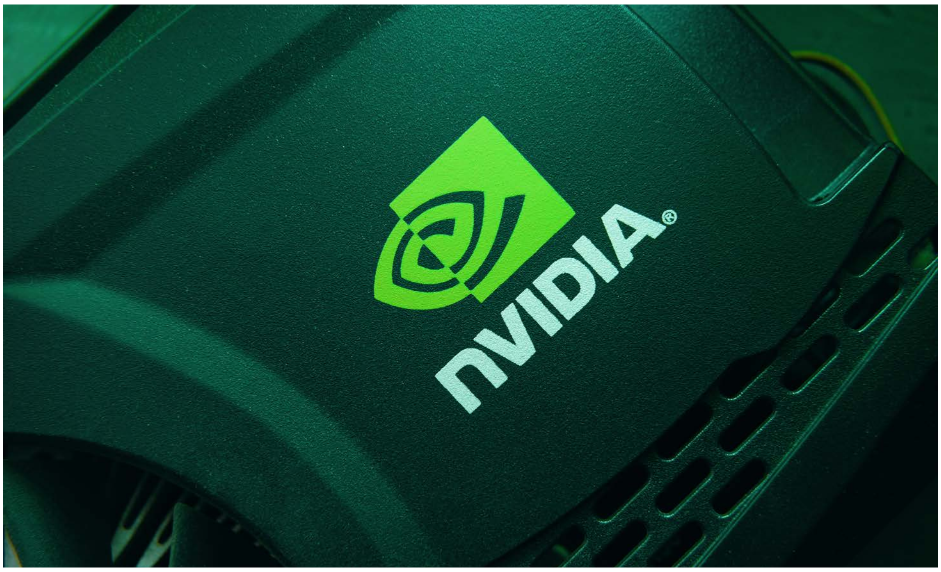
Nvidia is at all-time high but here's why the stock is still a buy

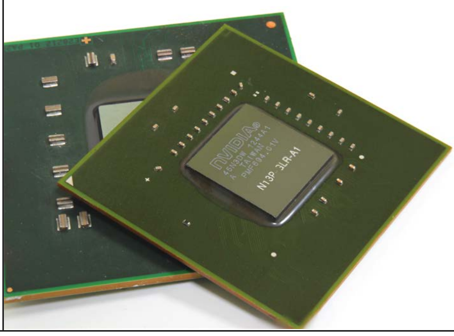
One of the world's biggest companies is showing why it may be one of the most important

Most readers will know that microchips are the building blocks of the modern digital world, and while many will not know Nvidia you may already be a regular user of its technology.

The company's silicon chips enable video recommendations on TikTok, grammar checks in Word online, and augmented-reality shopping experiences on Facebook, and we believe it could become one of the world's most important technology designers.

This is a fabulous company right at the bleeding edge of chip technology, helping accelerate the evolution of artificial intelligence with microprocessors that power the next generation of computing. And it is really catching on with investors, catapulting its valuation to within touching distance of the big tech five that dominate the US (and world) stock markets – Microsoft, Apple, Amazon, Alphabet and Facebook.





So far, only Tesla has really managed to break into this exclusive club, yet this year's 136% share price rally saw Nvidia become the S&P 500's seventh largest company courtesy of its $792 billion market cap, powering past Warren Buffett's Berkshire Hathaway on the way.

CLOUD GOLD STANDARD

Nvidia's premium processors were initially used for graphics-heavy computer games, striking key licensing deals to place its chips in Xboxes and PlayStations. But the ability of Nvidia's GPUs, or graphics processing units, to accelerate the speed of data processing was quickly discovered by the major cloud service providers, Amazon Web Services, Google Cloud, Microsoft Azure et al, and has now become the gold standard for running apps and processes in the Cloud.

Savvy fund managers have leapt at the chance to back the business. 'We believe Nvidia's opportunity lies at the confluence of three major secular trends over the next decade – artificial intelligence, augmented reality and 5G,' said Stephen Yiu of the **Blue Whale Growth Fund (BD6PG78)** when he first invested in the company in June this year. 'All three themes drive increasingly higher demands on processing

High returns from Nvidia

Return on equity		Return on assets		Return on investment	
Trailing 12 months	5 year average	Trailing 12 months	5 year average	Trailing 12 months	5 year average
42.0%	34.1%	24.3%	22.2%	27.3%	25.6%

Source: Fusion Media • Created with Datawrapper

power, something Nvidia is well-positioned to supply,' he said.

The company's technology is also likely to play a vital role in the development of self-driving cars and the future of the internet, or metaverse, as it is increasingly being called – the development of which led Facebook to change its name to Meta this year.

Investors got a glimpse of the substantial scale of the opportunity before Nvidia after the chip designer posted record third quarter sales on increased demand for video gaming. The company also predicted a strong end-of-year (to 31 January 2022) as more companies push into the metaverse.

Nvidia reported $7.1 billion in third-quarter sales in an after-hours release on 17 November, a 50% jump from a year ago, thanks to 'record revenue from the company's gaming, datacentre and professional visualisation market platforms,' the company said, with the ongoing chip shortage doing no harm to pricing.

FORECAST BEATING HABIT

That beat Wall Street forecasts for $6.8 billion in sales, while adjusted earnings per share of $1.17 topped analyst estimates of $1.11 as well. That makes it the 11 quarters of back-to-back beats. That track record goes back to 2014 if we ignore a pair of revenue misses in 2018/2019. This leaves Nvidia on track to hit earnings of at least $4.32 per share this full year on $26.7 billion of sales, implying nearly 70% and 60% growth respectively, and it might yet beat those estimates.

Analysts anticipate this rapid growth to carry through to 2022 also, forecasting $31.3 billion and $5.09 in the year to January 2023.

Of the 42 analysts that cover the stock, according to Koyfin, 35 are buyers with five more on hold. Just 1.05% of the stock is in the hands of shorters. Readers might wonder why more analysts are not cautious of the rating given the 2022 price to earnings multiple of 73, falling to 62 the following year.

Nvidia's financial delivery over several years is a good reason. The company has put up compound average growth rates of 32% and 42% in sales and earnings before interest, tax, depreciation and amortisation over the last five years, while net margins are expected to go from 26% this year to 33% next.

Return on investment has averaged 25.6% over five years while return on equity has averaged 34.1%. This year the company is expected to throw off around $4.7 billion of free cash flow.

Grasping its opportunities in the metaverse, self-driving vehicles and maintaining its clear lead in gaming and cloud applications are likely to bolster that growth, profitability and returns record.

It's a stock that is not suited to unadventurous investors, there is a long way to fall if management takes its eye off the ball, but we see Nvidia as one of those stocks that will never look inexpensive on traditional metrics, yet may well do when investors look back at the current all-time high of $316.70 three to five years from now.

Disclaimer: The author Steven Frazer owns shares in Blue Whale Growth Fund

By **Steven Frazer**
News Editor

BlackRock.

THINK SMALL FOR LONG-TERM GROWTH

BLACKROCK THROGMORTON TRUST PLC

Dan Whitestone, Portfolio Manager of the BlackRock Throgmorton Trust plc, explains why he believes that high-quality smaller companies are tapping into powerful long-term trends, including digital payments, business transformation and cloud computing.

Dan Whitestone
Portfolio Manager, BlackRock Throgmorton 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.

WHY ARE SMALLER COMPANIES AN EXCITING AREA TO INVEST?

There can be a wide spread of possible returns across small and medium sized companies. It is also an exciting area because it is so diverse. I get frustrated with people talking about the diversity from holding 20 companies in the FTSE 100. It's just not reflective of the many trends taking place in the 1,600 companies not in the FTSE 100 index. Our universe is diverse, and it keeps changing.

There is so much idiosyncratic, stock specific risk. The rewards for success may be really high, and the consequences for failure and/or disappointment may be severe. As such, it's not an area where we believe investing in the index as a whole works particularly well. It's about owning the winners and absolutely avoiding the losers. Every year the index changes, companies are acquired, companies go bust, many new companies come in.

This is a universe that is significantly under-researched in our view. The combination of a dynamic company, doing something truly differentiated or disruptive in a large fragmented market can produce a range of outcomes for profits and cashflow that may be wildly different versus forecasts. A large range of financial outcomes with a lack of research can produce huge share price movements.

WHAT MAKES THE BLACKROCK THROGMORTON TRUST DIFFERENT FROM ITS UK SMALLER COMPANIES SECTOR PEERS?

We believe it is unlike any other UK smaller companies focused trust on the market. The Trust has a 'gross' exposure of up to 130%. That means that for every £1 most people can invest, we can invest £1.30. It means we can magnify returns, but it could also amplify losses. We can also short shares (i.e., profiting from shares that fall in value) and use the short book to smooth out some of the volatility inherent within the universe of small and medium sized companies. The Trust is predominantly exposed to the world of small and mid-cap companies in the UK, however we can also invest up to 15% of the trust's assets[1] in companies not in the UK: We have many shares in the US, for example, some in Europe and one in Australia.

Risk: *There is no guarantee that a positive investment outcome will be achieved.*

EXPLAIN HOW THE SHORTING ELEMENT WORKS IN THE PORTFOLIO

The real differentiator for this Trust lies in the fact that while gearing, which means borrowing to invest, for our competitors is limited to long positions (i.e., those that will benefit from

[1]Source: November 2021

rising share prices), the Trust can use a contract for difference to also take short positions. This means that the Trust can not only target differentiated growth companies that see their share prices multiply over time, but also shorts in companies that operate in challenged industries, with weak financial structures, that fall victim to industry change. Additionally, through a combination of long and short exposure, the Trust can be flexible with its net exposure to the market through time, which can be particularly beneficial during times of volatility, as we experienced in 2020.

Risk: *Risk management cannot fully eliminate the risk of investment loss.*

WHAT DO YOU LOOK OUT FOR WHEN PICKING STOCKS?

There are really two types of companies that we focus on. The first we would define as "quality differentials" which are essentially differentiated long-term growth investments. These companies share a number of characteristics that we believe may lead to long-term compounding success. We spend a lot of time focusing on the quality of the management team, which is something that is often overlooked and the hardest thing to put on a spreadsheet. We are big believers in owning great management teams with great vision that have the resources to build on that vision. They set the culture and the pace. They don't get delusions of grandeur.

We also like to see product strength. We want to understand what is special about the product, what gives the business pricing power and enables the company to sustain high gross margins. We also want to see what the business is spending on research and development and what percentage of sales are coming from products developed in recent years so that we can get a sense of how well they are spending on R&D.

We also like to find companies that operate in attractive industries with long-term secular growth trends because when you find great management teams with a strong product in a fast-growing industry it can lead to long-term compounding success. In contrast, a difficult market - one with high regulation or irrational low-cost competition or changes in consumer behaviour - can undo a lot of good work.

Finally, we like companies with good balance sheets: we don't want to see a lot of debt. If anything changes in the world, companies with a lot of debt can be plunged into crisis quickly. We also want companies that are able to convert their profits into cashflow. It tells us that the earnings are real, and companies can reinvest those cashflows back into the business at high rates of return to drive future growth.

The second type of company that we look to invest in are those that are leading industry change. We are living in a world where advancements in technology are accelerating many long-term industrial trends and this is fundamentally changing the way that both consumers and corporates purchase goods and services. As a result, we are seeing profound changing in consumer behaviour, corporate behaviour and manufacturing

models, introducing lower cost unit economics which means that pricing architecture of legacy incumbents can be undermined. This can be great for the winners but can create catastrophic problems for the losers that aren't able to adapt to the fast-changing landscape of the industry in which they operate in.

This tends to lead us to certain sectors: consumer services, consumer goods, light industrials, specialist financials, technology and healthcare. However, there are still risks to picking small-cap stocks as smaller company investments are often associated with greater investment risk than those of larger company shares.

HOW OPTIMISTIC ARE YOU FEELING TODAY?

There are so many secular growth trends, many of them accelerated by Covid. We are only in the foothills of areas such as digital payments, software-as-a-service, online learning, and cloud enabled audio and visual communications. These are such powerful trends, and we believe can generate significant returns for companies in those areas. It is an exciting time. For it's not about monetary policy factors, not about the exchange rate, not about the yield curve, it's about multiple battles being fought at the micro level for market share or significant secular trends.

For more information on this trust and how to access the potential opportunities presented by smaller companies, please visit www.blackrock.com/uk/thrg

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TO INVEST IN THIS TRUST CLICK HERE

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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.

BLACKROCK THROGMORTON TRUST PLC

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Complex derivative strategies risk: Derivatives may be used substantially for complex investment strategies. These include the creation of short positions where the Investment Manager artificially sells an investment it does not physically own. Derivatives can also be used to generate exposure to investments greater than the net asset value of the fund/ investment trust. Investment Managers refer to this practice as obtaining market leverage or gearing. As a result, a small positive or negative movement in stock markets will have a larger impact on the value of these derivatives than owning the physical investments. The use of derivatives in this manner may have the effect of increasing the overall risk profile of the Funds.

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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.

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Restaurant brand Fridays off to a bad start as a listed company

The shares have slumped but the strategic growth plan does have merit

The UK franchise owner of American casual dining brand TGI Fridays, **Hostmore (HOST)**, was spun out from private equity trust **Electra (ELTA)** on 2 November but its shares have been a flop so far. They've fallen by 27% to 108p, possibly caused by Electra shareholders dumping the shares they received as part of the demerger.

There is a lot to like about the company's growth plans, but equally there are some key risks to consider which means there is no rush to buy. We want to see evidence that the new management team can successfully execute on their plans before seriously considering Hostmore as an investment.

NEW-LOOK BUSINESS

TGI Fridays has been operating in the UK since 1986 when **Whitbread (WTB)** acted as the master franchisee and rolled out 45 restaurants over two decades before selling the business in 2007.

Electra purchased the company in 2014 and increased its footprint from 66 to 87 sites. Earlier this year the UK restaurant chain rebranded as Fridays, in keeping with franchisees in other geographies.

Hostmore has a franchise agreement with US brand owner TGI Fridays which is owned by TriArtisan partners. It pays a fixed royalty payment of 4% on all revenues.

All the Fridays-branded sites are managed by Hostmore, so this isn't like **Domino's Pizza (DOM)** which manages a portfolio of franchisees who run individual stores.

In May this year Hostmore launched its second brand, 63rd & 1st, a city based cocktail bar and restaurant. It offers a customer experience reminiscent of the original TGI Fridays restaurant which was opened in 1965 on the corner of 63rd Street and 1st Avenue in New York.

The brand has been tested in Cobham, Surrey and a site has just opened in Glasgow. The company will target university towns and affluent locations. 'This brand has been developed in response to growing consumer demand for all-day venues and members clubs and boutique hotel style environments where customers can work, rest and socialise,' says Hostmore.

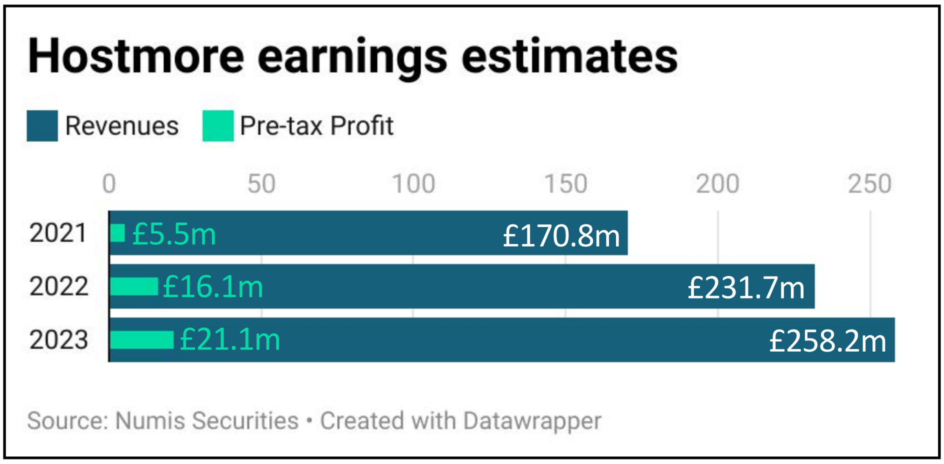
EXPERIENCED TEAM

A new management team headed by Robert Cook was brought in to revitalise the Fridays brand just before the pandemic. The business has been shaken-up and re-energised from top to bottom. The quality of the food and drinks been upgraded while a new joined-up digital strategy has been implemented.

Cook used to be the CEO of hotel chains Malmaison and Hotel Du Vin and was managing director of Virgin Active. He told told *Shares* the average spend per head for Fridays since reopening has increased by around 15% to £20, demonstrating that customers are happy to pay more for a higher quality product and service.

The intention is to grow Fridays to a net 100 stores in the next three to five years and have at least 10 63rd & 1st bars signed up by the end of 2023. Hostmore sees scope for more than 20 sites for 63rd & 1st by 2024. In addition, management will look to incubate 'fledgling brands' and help them grow.

According to Globaldata the UK market is forecast to grow at a compound annual growth rate of 7.7% a year over the next three years.



WEEKLY REVENUE

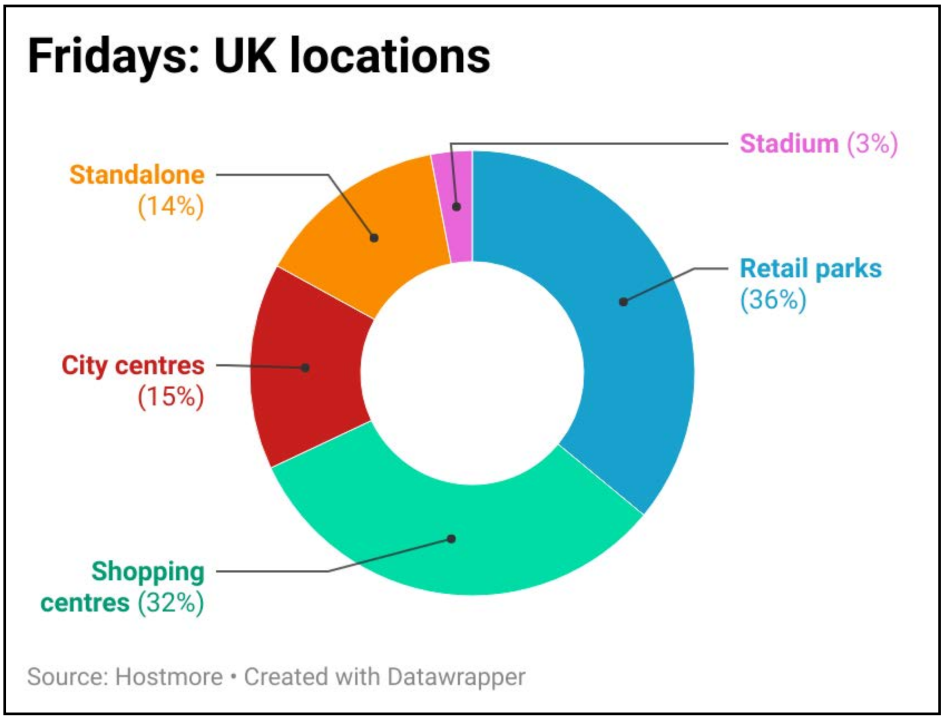
The average size of a Fridays restaurant is around 6,800 square feet, operated by 37 staff. The estate has capacity of 12.4 million covers a year (a term used in the restaurant industry to describe a customer eating a meal).

Average weekly turnover per site in 2019 was £47,500 which is almost double the industry average of £25,000 and comparable to leading firms such as Wagamama (£51,800), which is part of the **Restaurant Group (RTN)**.

Higher than average weekly revenues reflect the size of the sites and a higher than average spend per head which supports the ethos of the brand with customers visiting primarily for celebrations and special events rather than everyday dining.

The restaurants are predominately located in high footfall locations such as retail parks and shopping centres. Only 15% of sites are in city centres.

The Fridays brand has a net promotor score of 25% which is comparable to Nandos and above Pizza Express (11%) and Frankie & Benny's (10%), albeit still room for a lot more improvement. A score between 0 and 30 is considered 'good', 30 to 70 is 'great' and 70 to 100 'excellent'.



INVESTMENT OVERVIEW

Based on Numis' 2022 earnings estimates and *Shares*' analysis of the marketplace, Hostmore trades at an approximate 40% discount to its peers.

The strategy to revitalise Fridays looks interesting, but a lot of work will have to go into changing public perception of the brand. Ask the average person and they'll probably say (TGI) Fridays is a name of the past, not somewhere you'd aspire to visit today. In general, reviews of its restaurants on Trustpilot are not complimentary.

The hospitality sector received a big boost this summer as people were eager to get out of the house again, so positive recent trading for Hostmore isn't a surprise. However, we would rather see how trading has been over Christmas and next Easter to get a sense of more normalised trading conditions. It's a wait and see situation from an investment perspective.

By **Martin Gamble**
Education Editor

INFLATION BUSTING DIVIDENDS

6 stocks and funds providing a decent, growing income

By **Tom Sieber**, **Ian Conway**, **Mark Gardner** and **Martin Gamble**

UK inflation is at a 10-year high. Rising prices have been on the agenda for months but in October the impact of the energy crisis really bit as the CPI measure of inflation hit 4.2%.

This higher cost of living matters to all of us, not least because we now need a return of at least this level to avoid the so-called 'real' value of our savings being eroded.

While interest rates are poised to go up, the returns from cash in savings or current accounts fall well short of this 4.2% level. This makes a compelling case for investing your money instead.

In this article we have identified stocks and funds which are forecast to pay inflation-busting dividends which are also expected to grow faster than rising prices.

The list of names includes insurance firms **Admiral (ADM)** and **Legal & General (LGEN)**, housebuilder and regeneration specialist **Vistry (VTY)**, as well as a vehicle which invests in music royalties and a real estate investment trust securing inflation-linked income from GP practices.

INFLATION-BUSTING INCOME

Investment bank Berenberg recently conducted a screening exercise of the market to identify companies with positive income characteristics. Analysts Edward Abbott and Jonathan Stubbs commented: 'UK equities and real estate continue to offer some attractive yield opportunities.

'This is relevant for investors looking to protect capital against rising inflation risk and could prove an important component of income portfolios over the coming quarters.'

Berenberg's search criteria included dividend growth, whether companies are well positioned heading into an expected scenario of continued growth but rising inflation and bond yields; and the extent to which dividends are underpinned by earnings and cash flow, and supported by decent balance sheets. The table shows 12 names that tick the right boxes in its search.

We conducted our own screening exercise, looking for companies and trusts which pay a dividend yield of at least 4.2% with forecast growth of at least 4.2% in said dividend.

With many firms reducing dividend payments materially during Covid, some of the upcoming dividend growth looks artificially inflated, particularly given the impact of some planned special dividends.

To factor this in, we've restricted our search, at least in terms of individual company stocks, to those which have also delivered average annualised growth in the dividend of at least 4.2% over the past 10 years. We haven't included this restriction for investment trusts, given that most of the high-yielding names on the list haven't been on the market for a decade.

Miners dominate the list, but we think beyond the near-term there may be challenges in maintaining very generous dividends from here. This industry needs to invest in reducing emissions and in growth as it looks to capitalise on demand for metals to build assets like renewables and electric vehicle infrastructure.

From the list of 20 shares and funds we have selected six of the best ideas to help fight off the ravages of what is often called the cruellest tax.

GLOBAL INCOME FUNDS TO TACKLE INFLATION

It goes without saying that the increasingly globalised nature of today's world means it has never been easier to gain income exposure from overseas equity and bond markets. This is a sensible option considering that recent data from Janus Henderson points to global dividends hitting pre-pandemic levels by the end of the year as third quarter figures surge.

This is particularly the case for companies in Europe, parts of Asia and emerging markets. Dividends jumped 22% year-on-year reaching $403.5 billion, an all-time high for third quarter figures, the study found.

There are several funds and investment trusts that will invest in income-paying equities anywhere in the world. This is a wide remit and can vary from fund to fund. Some funds will stick to companies in developed markets only, like Europe, the US and Japan, while others will also invest in emerging markets. There will also be variation in the size of companies that funds will invest in, which may tilt the risk balance.

Beating 4.2% UK inflation from the global dividend streams is a tough challenge. For example, **JPMorgan Global Growth & Income (JGGI)** aims to pay out around 4% of net assets each year through dividends paid quarterly, but its implied forward income yield of 3.2%, according to Trustnet data, falls short of most recent inflation figures.

12 name that appear on Berenberg's screen for income stocks

Name	
Anglo American	Natwest
Aviva	Polymetal
AstraZeneca	Royal Dutch Shell
BAE Systems	Smith & Nephew
Britvic	Supermarket REIT
Dunelm	Vodafone

Source: Source: Berenberg • Created with Datawrapper

The trust's portfolio includes income payers like McDonald's, ConocoPhilips and Wells Fargo as well as higher growth companies that pay lower levels of income, such as Microsoft and Mastercard. This plays to recent trends that have seen UK investors pull money out of dividend-paying British businesses into funds that invest in lower dividend payers around the world that have a greater potential for capital returns.

If these investors need income, they can take the money from their capital growth and dividends. Total share price and net asset returns have beaten the Investment Trust Global Equity Income benchmark over three and five years, but not all global income funds can say the same.

The **Liontrust Global Equity (B9225P6)** fund is ranked best in class over three and five years, according to data from researcher Yodaler. The fund's own data shows it has posted returns of 70.1% and 95.1% respectively, versus the Investment Association's Equity Income benchmark of 36.2% and 56.3%, yet investors would have done better buying an MSCI World ETF, the index having chalked up gains of 66.4% and 103.9% over the equivalent timeframes and cheaper than Liontrust's 0.88% ongoing charge.

This illustrates that income seeking investors should take a close look at past performance relative to ETF options before backing an active fund with their cash.

Shares' screen for inflation-busting dividends: the results

Company/trust	Prospective dividend yield (%)	Forecast dividend growth (%)
Ferrexpo	23.2	247.8
Rio Tinto	17.8	132.7
Anglo American	10.3	301.7
Admiral	9.7	144.0
Legal & General	6.3	4.4
Custodian REIT	5.5	5.0
Vistry	5.7	201.1
Synthomer	5.2	125.4
Polar Capital	5.0	4.7
Aberdeen Standard European Logistics Income	5.0	13.7
Close Brothers	4.7	10.7
Antofagasta	4.6	67.6
STM	4.6	14.3
Jarvis Securities	4.5	20.2
M Winkworth	4.4	31.7
Assura	4.2	5.3
Vesuvius	4.2	10.4
BMO Commercial Property Trust	4.2	51.8
LXI REIT	4.2	8.2
Hipgnosis Songs Fund	4.2	4.8

Source: SharePad, data as at 17 November 2021 • Created with Datawrapper

INFLATION-BUSTING DIVIDEND PICKS

ADMIRAL (ADM) £29.56

2021 YIELD 9.7%

BUY

Cardiff headquartered non-life insurer **Admiral (ADM)** offers income investors an inflation beating 9.7% yield for 2021, and a prospective 6.6% yield in 2022.

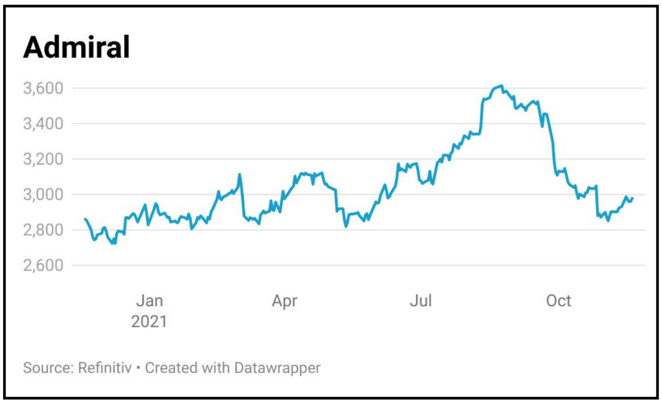
Two factors account for this inflation-busting yield. First, the 63% increase in the first-half dividend is a reflection of a strong uplift in earnings. Second, both the 2021 and 2022 figures are boosted by special dividend payments resulting from the disposal proceeds of its price comparison website Penguin Portals.

First half results to the end of June, reflected the strong underlying health of the business. Profit before tax increased by 76% to £482 million versus the first half 2020 of £274 million. Earnings per share rose by 67% to 132.9p compared to 79.7p in the corresponding period in 2020.

As Berenberg notes: 'Admiral has a proven track record of outperformance in a very competitive environment. We expect it to continue to use its sophisticated pricing tools to price effectively and maintain underwriting profitability.'

On 30 April Admiral confirmed the sale of its price comparison website Penguin Portals for £460 million. The group is returning £400 million to shareholders, via three special dividend payments.

The 63% uplift in the 2021 interim dividend from 70.5p to 115p was in part due to the first of these special distributions of 27.1p. Two additional special dividend payments will be made with the payment of the final 2021 dividend, and at the 2022 interims. [MGar]



ASSURA (AGR) 70p

DIVIDEND YIELD: 4.2%

BUY

Real estate investment trust **Assura (AGR)** invests in healthcare premises and manages a portfolio of more than 600 GP surgeries, primary care, diagnostic and treatment centres around the country.

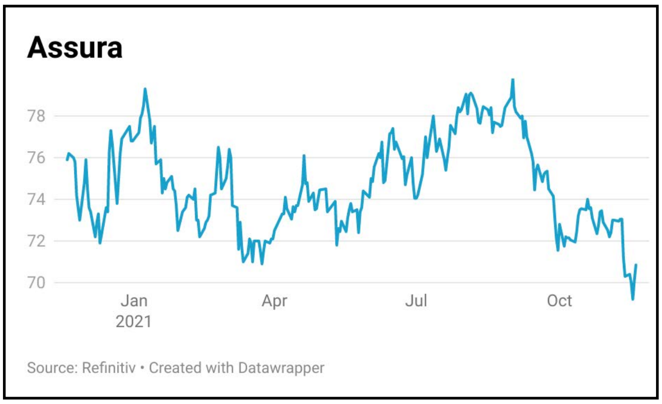
It has a strong relationship with the NHS and delivers a wide range of services from general practice to physiotherapy, renal dialysis and even x-rays, while the pandemic clearly highlighted capacity constraints in hospitals and the need for better community healthcare.

Assura works with GPs and healthcare companies to design and develop new medical centres, tying in its tenants before its third-party construction partners start building.

Thanks to its secure covenants and long leases, which are subject to rent reviews linked to inflation, the company generates a secure and predictable income stream with an attractive and growing dividend.

In the six months to September it invested over £110 million in new and existing sites, and it recently raised £182 million to invest in its pipeline of almost £500 million of opportunities of over the next 18 months.

Analysts at Jefferies believe the firm can grow its dividend by more than the current rate of inflation for several years and rate the shares as attractive given the low-risk income profile and above-inflation dividend yield. [IC]



HIPGNOSIS SONGS FUND (SONG) 127.9p

DIVIDEND YIELD: 4.2%

BUY

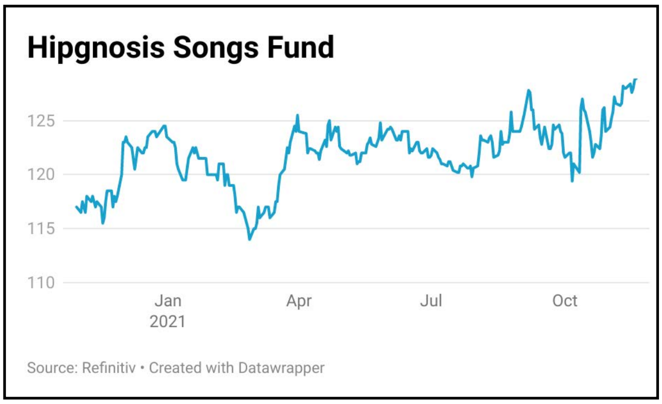
Investment trust **Hipgnosis Songs Fund (SONG)** buys up collections of songs from which it can generate royalties, underpinning a growing stream of dividends. It listed in London 2018 and investment in the music royalty space has ramped up in the interim.

As Numis observes: 'Universal Music paid more than $300 million for the song catalogue of Bob Dylan, and Warner Music just did a deal with Madonna. KKR formed a joint venture with BMG and acquired the catalogue of songwriter Ryan Tedder.'

Music streaming has grown rapidly during the pandemic, with Hipgnosis generating revenue from platforms like Apple Music and Spotify, as well as when songs are played in gyms, shops and restaurants, on stage or on the radio and increasingly when they are played on social media platforms, TV shows and video games too.

Hipgnosis owns the rights to works by the likes of Ed Sheeran, Barry Manilow, Beyonce and Stevie Wonder and it has a good track record of dividend growth since listing. The main drawback is the regular issue of new shares to fund catalogue acquisitions, which dilutes existing shareholders.

Hipgnosis' investment adviser HSM recently created a joint venture with private equity firm Blackstone which will invest up to $1 billion in acquiring and managing music catalogues. The venture will also include co-investment with the investment trust on royalties. The ongoing charges are not cheap at 1.59%, reflecting the specialist nature of the fund's remit. [TS]



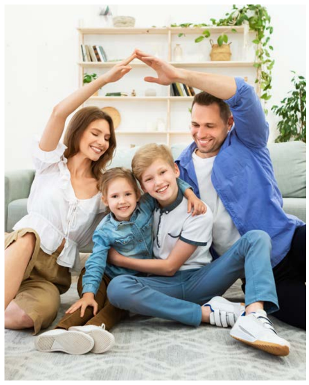
LEGAL & GENERAL (LGEN) 292.8p

DIVIDEND YIELD: 6.3%

BUY

The dividend performance record of UK life insurance company **Legal & General (LGEN)** is impressive. This looks set to continue as improving actuarial assumptions (people dying earlier as a result of Covid), coupled with good market returns and timely disposals, should enable the group to increase dividend payouts.

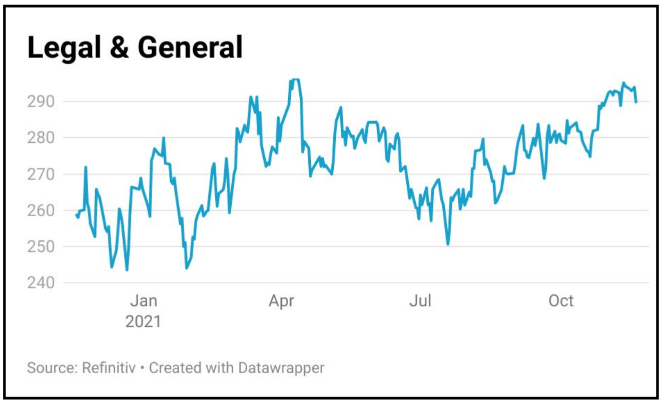
The dividend policy intends to 'maintain progressive dividends, reflecting the group's expected medium-term underlying business growth'.



The strength of the underlying business was reflected in the results for the six months to June, where pre-tax profits increased to £1.4 billion versus £342 million for the prior year. The 14% jump in operating profit to £1.1 billion was 8% ahead of market expectations. The company declared an interim dividend of 5.18p per share, an increase of 5% year-on-year.

Legal and General's dividend track record is particularly impressive when viewed from a longer term perspective. The company has steadily grown the dividend following the lows in the immediate aftermath of the 2008 financial crisis.

Another appealing facet of the Legal & General dividend story is its relatively robust levels of dividend cover. At 1.34 times, the ratio of earnings to dividends is ahead of many of its peer group. [MGar]



POLAR CAPITAL (POLR:AIM) 830p

DIVIDEND YIELD: 5%

BUY

Boutique fund manager **Polar Capital (POLR:AIM)** has a prospective dividend yield of 5% which is covered 1.5 times by forecast earnings per share. Over the last decade the company has delivered a compound annual growth rate in its dividend per share of 18% a year.

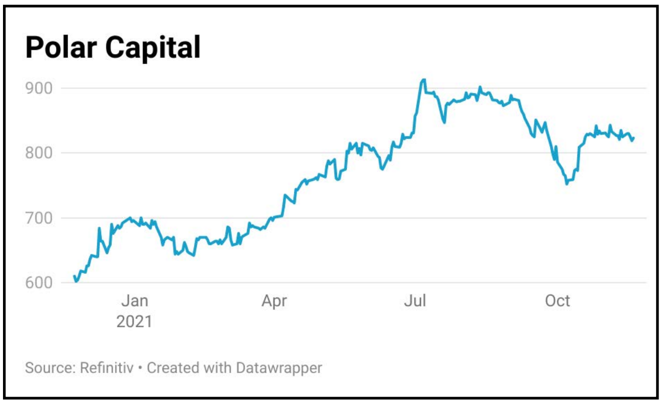
We believe the quality of Polar Capital's business and stable operating margins which has achieved an average return on equity of 35% over last five years provides comfort to investors that the dividend is safe.

And beyond that we think there are sustainable growth drivers supporting the business which should see the dividend grow faster than inflation over the coming years.

The two biggest factors shaping the fund management industry over the last decade have been the growth of low-cost exchange traded funds whose main advantage is scale and the growth of specialist truly active managers like Polar Capital.

Polar is an 'investment focused' firm whose goal is to deliver differentiated risk-adjusted returns across a diverse range of fundamentally driven products as well as a high level of customer service.

The company's operating model and entrepreneurial culture attracts the best talent in the industry and creates a solid platform for future growth. [MGam]



VISTRY (VTY) £11.10

DIVIDEND YIELD: 5.7%

BUY

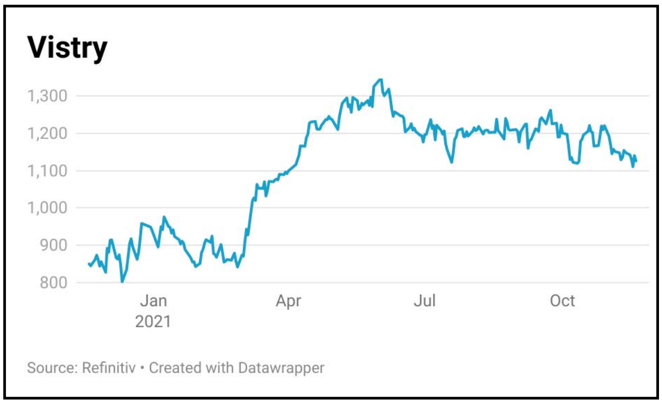
Housebuilder and regeneration play **Vistry (VTY)** posted first half revenues and earnings 'significantly' ahead of management expectations and raised its full year guidance after it was able to more than offset higher input prices with higher selling prices.

Turnover was up 91% on the first half of 2020 and was modestly above the first half of 2019, making Vistry one of the few housebuilders to show progress against pre-pandemic levels.

The firm is already fully sold out for 2021 and is 'in great shape' for 2022 according to chief executive Greg Fitzgerald, with higher margins and strong cash generation meaning it expects to end the year with a net cash position of £225 million.

This positive outlook and the strength of its balance sheet have allowed the firm to accelerate its move to a sustainable two times dividend cover policy, with a promise that any further excess capital generated be handed back to shareholders through special dividends or buybacks.

Having cut its payout last year to preserve capital, the company is expected to pay an ordinary dividend of 63p this year out of earnings per share of 126p and 73p next year out of earnings of 146p, although we wouldn't be surprised to see forecasts raised again. [IC]



Why emerging market debt to GDP ratios are lower

Analysing the difference between developing and advanced economies when it comes to borrowing

There is a big difference in the public finances of emerging market countries and those in the developed world.

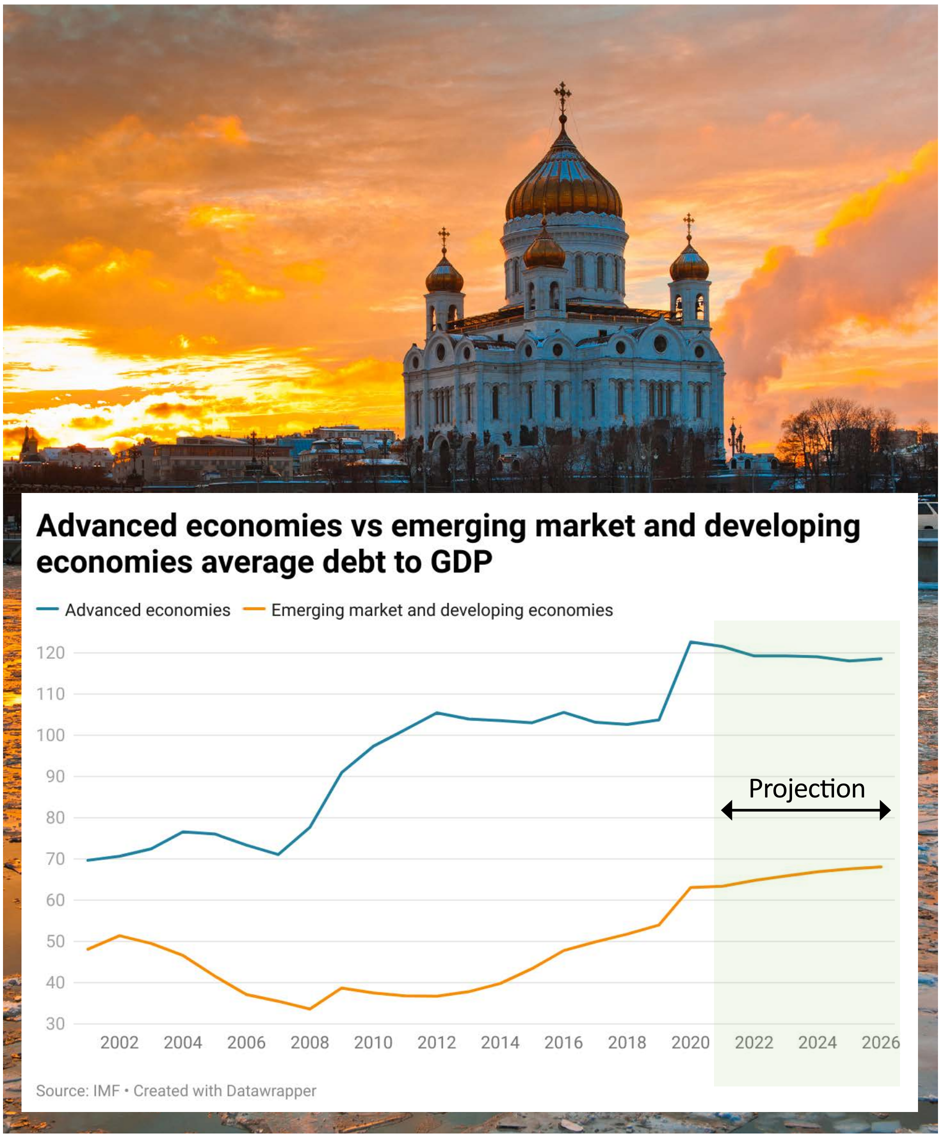
For the most part emerging market countries have much lower levels of government debt to GDP (gross domestic product).

According to the IMF (International Monetary Fund) the average debt to GDP ratio in 2021 for emerging markets and developing economies is 63.4%, a little more than half the average for advanced economies at 121.6%.

There is some variation within this: Russia, for example, comes in at just 17.9% while India's debt to GDP ratio is 90.6% and Brazil's is also above 90%.

In 2021 the averages for the developed world and emerging markets were lower and the difference between the two was also smaller – the respective averages coming in at 69.7% and 48.1%.

The IMF is projecting for the gap to close somewhat, by 2026 it is forecasting an average of 118.6% for advanced economies against 68.1% for the developing world.



The divergence, in part, reflects the differing responses to two great crises of the past two decades as countries in the West have taken advantage of their ability to issue debt at low interest rates to help cushion the economic impact of the 2007/8 financial crisis and the Covid-19 pandemic.

The result being that, on this measure at least, emerging economies look to be at something of a structural advantage.

Emerging markets: Views from the experts

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

1. As we examine the emerging market (EM) landscape today, the **rise of leverage** within economies is a key trend. Leverage can be a double-edged sword, as it can be positive, but also represents a source of risk. Over the past decade, the level of debt has gone up not just in EMs, but across the world. Covid-19 has certainly led to a dramatic increase in government debt in some countries but, in general, debt to gross domestic product is currently much lower in emerging economies than in developed countries—which is one reason for our bullish view. Aside from an increase in China, corporate debt as well as household (consumer) debt levels in EMs also remain much lower than in the developed world. As such, we feel that EMs have much more headroom available to support growth with increased debt levels without a significantly detrimental impact.

2. **Cash flows** are one of the reasons we remain positive on EMs. In the last decade, EMs have underperformed the developed world in terms of return on equity. But over the last decade there has been a trend of improving free cash flows (in both absolute terms and relative to developed markets) that has indeed accelerated in the last year. EM companies are generating much more free cash this year because both commodity-oriented and technology-oriented companies (in particular, the semiconductor industry) have been doing well. As cash flows increase, we believe this will ultimately result in improved returns on equity for EM stocks and should likely propel a rerating.

3. EM companies have been preparing for **climate change** in multiple ways. Some are seeking to meaningfully decarbonize in high-emitting sectors, while others are providing environmental solutions through their products and services. Against this backdrop, our objective to understand the climate commitments of our investee companies incorporates both local and global perspectives. Our investment process incorporates top-down policy and industry studies, bottom-up company research, and comprehensive environmental, social, and governance analysis including climate considerations.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

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

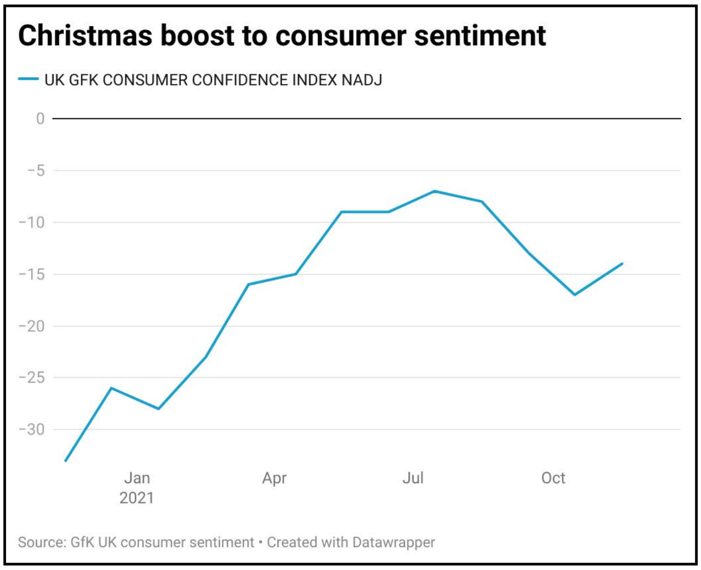
DANNI HEWSON
AJ Bell Financial Analyst

Investors shouldn't get carried away by October's consumer boost

The recent bump in spending in the UK looks like a blip as people look to avoid shortages this Christmas

A confident consumer spends cash and drives economic growth. When that confidence is shaken by, for example, rising prices, then people tend to save rather than spend, thereby restricting that growth. So, the latest GfK consumer confidence survey might have surprised some investors.

The numbers had been falling since August as energy and food costs shot away in the other direction and there were growing concerns about rising cases of Covid particularly in some parts of Europe. But, while consumers are fretting about their day-to-day personal financial health and despite all the tailwinds, Christmas has still come early.



CHRISTMAS COMES EARLY

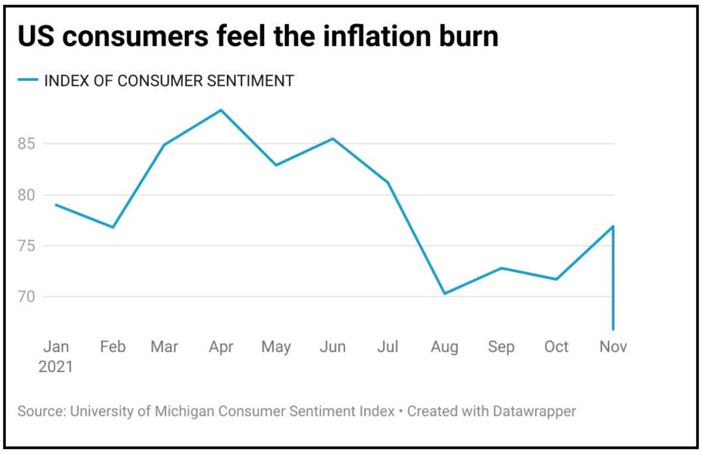
Forewarned about the prospect of shortages on the shelves, would be Santas have shopped smart and that spend can be seen in October's retail figures as well as the UK's latest consumer confidence update. After 2020's disappointment it seems 2021 is on track to be a Christmas with all the trimmings as people reconnect with family and friends – but how long will the festive glow last?

The answer to that question is something investors need to pay heed to because of the correlation between consumer confidence and stock market valuations. Investors are consumers too and its not just sprouts they are willing to pay more for if they're confident about their financial futures.

What is more, consumer spending accounts for a majority of overall economic activity. Wavering consumer confidence means less spending, and

DANNI HEWSON
AJ Bell Financial Analyst

that equation can potentially lower profits for consumer-facing businesses. If these latest figures are a blip, which seems more than likely, and the overall trend continues then we are in for some tough months ahead.



It's not just in the UK where the consumer has been flagging, the latest figure from the US put consumer sentiment at a 10-year low. Rather like here in the UK there have been many positive factors keeping the economy rolling Stateside including rising wages, a healthy labour market and Covid savings.

But rising prices are gradually eroding that optimism, living standards are taking a hit and many people expect any extra they might have accrued over the last year will be wiped out by inflationary pressures.

ARE MARKETS DISCONNECTED FROM CONSUMER SENTIMENT?

The UK market has had a long slow trek back to form, but US markets keep hopping from record high to record high and here there does seem to be a distinct disconnect between buoyant investors and the consumer.

But even if UK markets do appear more grounded in the here and now, there are still questions about how much investors have really priced in the changes anticipated over the next few months.

Despite all the uncertainty and an anticipated, if later than advertised, rate rise on the cards the FTSE 100 clawed its way back to within touching distance of pre-pandemic levels earlier this month.

Gains have been made in the face of outlook after outlook from UK companies which have contained warnings about rising prices and labour and supply shortages, when you look at the fortunes of the FTSE 100 since close of play on the 4 November, when the Bank of England surprised by keeping rates on hold, three-fifths of its constituents have seen share prices rise.

This probably reflects the international horizons of the constituents of the index, but the FTSE 250 is beginning to show signs that investors are paying attention to what's going on closer to home. Less than half of companies in the index have made positive gains since the Bank of England hold.

Amongst those losing ground are many travel and tourism stocks including **TUI (TUI)**, **EasyJet (EZJ)** and Wizz Air; cash strapped consumers won't have the confidence to book ahead, and clearly renewed Covid concerns have also played a part.

And though retailers are enjoying their moment in the sun, even the revived **Marks & Spencer's (MKS)** sparkle might start to dim once the rush of gift buying runs its course.

The lesser known property stocks well worth your attention

We uncover four exciting smaller companies which offer income and upside

For most people, the attraction of investing in real estate investments trusts, or REITs for short, is that they offer a stable and consistent stream of income.

They are also a good way of getting exposure to real assets which in theory should behave differently to stocks and bonds, and provide some diversity in a portfolio.

The permanent capital structure and closed-end nature of investment trusts is much better suited to holding less liquid, long-term real assets like property than open-ended funds, as the last couple of years have demonstrated only too clearly.

However, many investors stick with big FTSE 100 real estate companies like **Land Securities (LAND)** and **Segro (SGRO)**.

We have uncovered four real estate investment trust which are geared to commercial property, mostly in the industrial space, which are actively managed, and which offer attractive yields as well as scope for further increases in net asset value.

Three invest exclusively in UK property, while the fourth invests solely in continental Europe, adding an extra layer of diversification.

Three also trade at a discount to their net asset value, and all offer an attractive and sustainable yield which is becoming ever more important with inflation eating away at returns.

AEW UK REIT (AEWU)
Price: 106p
NAV: 109p
Assets: £212 million

AEW manages a varied portfolio of 35 properties, mostly in the Midlands and North West, made up of mainly of industrial buildings ranging from 25,000 square feet to 280,000 square feet and in age from the 1960s to 2010.

It also manages eight retail sites, including several along the south coast, five office buildings, a leisure park and a cinema, both in Essex.

In the six months to the end of September, the company increased its net asset value by 11% and the value of its portfolio rose by 9.8% on a like for like basis.

During the half, the firm sold an industrial asset in Kirby for £10.8 million, almost double the purchase price and above its latest book value, and last month it sold a warehouse in Basingstoke for £5.86 million, 70% more than it paid and again above book value, demonstrating management's ability to add value.

The proceeds were recycled into two new properties in Bristol and Shrewsbury with initial net yields of 8% and 8.7% respectively, and earlier this month the managers bought a retail park in Coventry for £16.4 million while still keeping a cash balance of just over £15 million.

Rent collection is excellent and the average vacancy rate across the portfolio is just over 5%. The company pays an 8p per share dividend, which at today's price equates to a yield of 7.5%, ticking the box for investors wanting a healthy income stream.

Ediston Property Investment Company (EPIC)
Price: 79p
NAV: 89p
Assets: £300 million

Ediston started as a UK generalist REIT, but over the last five years it has been shifting into out of town retail parks and warehouses to take advantage of the increasing popularity of home delivery and click and collect services.

At present around quarter of the portfolio is still office space but talks to sell these assets are 'at an advanced stage' according to manager Calum Bruce.

Meanwhile, rent collection has held up well and contracted revenues at its retail sites are almost back to pre-pandemic levels.

During the last quarter, the company sold a site in Prestatyn occupied by supermarket group **Tesco (TSCO)** for £26.5 million, or a yield of just 5.2%, and reinvested most of the proceeds in a retail park in Stirling for an impressive 9.5% initial yield.

Moreover, once the two vacant units on the Stirling site are overhauled and let, the initial yield will rise to 10.8%, more than doubling the return on investment. This ability to unlock value in under-appreciated assets is key to generating superior long-term returns.

The current dividend of 5p per share puts the company on a yield of 6.3%, but Bruce is confident investors will see payouts rise as the asset mix improves with the sale of the office properties.

Industrials REIT (MLI)
Price: 184p
NAV: 147p (from 30 Mar '21)
Assets: £533 million

If the company's name seems unfamiliar it is because up until September it was known as Stenprop, but it still focuses on owning UK urban multi-let industrial property.

Manager Paul Arenson calls the trust 'the home of SME's' (small and medium enterprises), given its customer base and the size of its units which range from just 500 square feet to 10,000 square feet.

Multi-let units are in strong demand as they are affordable and located on the edge of towns offering easy access for online retail and logistics firms to their target markets.

'Almost every quarter we see new businesses evolving', says Arenson. Among the most recent tenants are the new breed of super-fast delivery firms such as Getir and Gorillas, for whom affordability and accessibility are key.

Demand is also being driven by firms stockpiling more goods on a 'just in case' basis instead of 'just in time' order to avoid supply chain shortages.

Shortage of supply means rents are growing well above inflation, with the firm posting a fourth successive quarter of over 20% increases in average rents at renewal or on re-letting between July and September.

With leasing enquiries up around 50% this year the firm is busy adding new multi-let estates to its portfolio, underpinning its 10% target total shareholder return.

Schroder European Real Estate (SERE)
Price: 104p
NAV: 125p
Assets: £224 million

Like the UK-focused trusts, the company focuses on attractive, income-generating commercial property assets with the potential for capital growth.

Unlike the bigger and better-known trusts like **Aberdeen Standard European Logistics Income (ASLI)**, which trades at an 8% premium to NAV (net asset value), and **Tritax Eurobox (EBOX)** which trades at an 11% premium, the shares are sitting at a discount of almost 17% to NAV.

The portfolio consists of 13 properties located in and around what manager Jeff O'Dwyer calls 'winning cities' like Paris and Berlin, which are globally-facing financial and technology hubs with good infrastructure which in turn attracts higher-value industries and creates positive employment trends and a 'wealth effect'.

In late 2020 the company sold its biggest asset, the Clarity office block in Paris, for €104 million. The existing tenant, French software firm Alten, signed a new 10-year lease, which together with the agreed refurbishment helped secure an exit price of almost three times the 2016 purchase price.

O'Dwyer also has plans for another of the trust's key assets, a Hornbach DIY store in Berlin which together with the car park sits on four hectares of prime real estate ripe for residential development.

With its sizeable discount, a 6% dividend yield, €50 million of investable cash and a clear vision of how to maximise the value of the portfolio, this trust looks like one to lock away for the long term.

By **Ian Conway**
Senior Reporter

Tough year for China funds but longer term many have soared

JPMorgan China Growth & Income is the standout performer on a five-year basis

The past year's performance for China-focused funds and investment trusts in general has been disappointing, yet the longer-term track record is quite the opposite.

The average return from China open-ended funds over the past 12 months is -3.6%, according to FE Fundinfo. That reflects a regulatory clampdown in the country which has weighed on share prices for big Chinese stocks like Alibaba and Tencent.

Yet once you look at longer term performance figures, some of the gains have been very impressive.

On a five-year basis, the top performer is investment trust **JPMorgan China Growth & Income (JCGI)**, with a near-190% total return (capital gains and dividends). The best performing open-ended fund is **Baillie Gifford China B Acc (B39RMM8)**, returning 128% over five years.

Investors often look to Asia for superior economic growth as that creates a favourable backdrop for corporate earnings. China has been battling a slowdown in its pace of economic growth, but its expansion rate is still ahead of most Western nations. [DC]

China open-ended funds ranked by 5 year performance

	1 year	3 years	5 years	10 years
Baillie Gifford China B Acc	-3.7%	79.8%	128.0%	322.0%
FSSA Greater China Growth B Acc	11.0%	69.4%	110.3%	283.5%
Fidelity China Consumer W Acc	-11.1%	38.0%	69.3%	234.9%
Invesco China Equity Acc	-12.2%	26.7%	60.9%	212.0%
Threadneedle China Opportunities RNA	-10.7%	30.4%	59.2%	170.9%
Liontrust China C Acc	-6.3%	31.6%	55.5%	122.9%
Jupiter China L Acc in GB	1.5%	2.3%	12.3%	75.7%
FSSA All China B Acc	-5.0%	78.1%	n/a	n/a
Janus Henderson China Opportunities E Acc	-10.7%	n/a	n/a	n/a
Allianz China A-Shares Equity C Acc	11.0%	n/a	n/a	n/a

Total return in GB. Data as of 18 November 2021

Table: Shares magazine • Source: FE Fundinfo • Created with Datawrapper

China-focused investment trusts ranked by 5 year performance

	1 year	3 years	5 years	10 years
JPMorgan China Growth & Income	-6.8%	135.0%	189.5%	353.3%
Fidelity China Special Situations	-9.6%	68.6%	91.3%	330.6%
Baillie Gifford China Growth Trust	-24.4%	35.8%	42.9%	123.2%

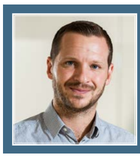
Total return in GB. Data as of 18 November 2021

Table: Shares magazine • Source: FE Fundinfo • Created with Datawrapper

Retirement money: should I access my ISA or SIPP first?

A lot of people have money saved up in both account types

I'm approaching retirement and have the majority of my savings split between an ISA and a SIPP. Does it make any difference which of these pots of money I access first? I have three children and would ideally like to divide anything I have left equally between them when I die.
Charlie



Tom Selby, AJ Bell Head of Retirement Policy says:

It's worth noting the different tax treatment of ISA and SIPP withdrawals. While ISA withdrawals are entirely tax-free, a quarter of your SIPP is available tax-free from age 55 (rising to 57 in 2028), with the rest taxed in the same way as income.

It is now possible to pass any undrawn funds in your defined contribution pension (i.e. a SIPP) to your nominated beneficiaries and if you die before age 75 this will usually be tax-free.

If you die after age 75, any funds passed down to your beneficiaries will be subject to income tax when they come to make a withdrawal.

If there are funds left over when your beneficiary dies, these can be passed on again, and if they die before age 75, that money will be tax-free.

Your beneficiary doesn't have to be your spouse or even your children – it can be anyone you wish to receive your pension pot after you die – although your scheme administrator will consider paying benefits to any dependants if they are not otherwise provided for.

Crucially, pensions are usually free from inheritance tax, whereas funds held in ISAs and other savings vehicles like general investment accounts will count towards your estate.

In 2021/22 the inheritance tax allowance is £325,000, with a further £175,000 'main residence nil-rate band' available for parents who wish to pass on their family home to children or grandchildren.

The 2015 death benefits reforms made pensions not just a tax-efficient inheritance vehicle, but one which can potentially be used to pass wealth down the generations. In many cases, it now makes sense for your pension to be among the last financial assets you spend in retirement.

There are a couple of important things to remember. If you die before age 75 then funds must be put into your beneficiaries' names within two years to be tax-free. If they are not, then they will be subject to income tax for the recipient.

If your fund or part of your fund hadn't been tested against the lifetime allowance before you died, a test will be carried out before any funds are passed on. However, any inherited pension funds will not count towards the lifetime allowance of your beneficiaries.

You should also make sure your nominated beneficiaries are kept up to date so your pension provider knows who you would like to receive your pension when you die.

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.

WATCH RECENT PRESENTATION WEBINARS

Cake Box (CBOX)
Sukh Chamdal, CEO &
Pardip Dass, CFO

Cake Box generates revenue from the sale of goods and services. Geographically, it derives revenue from the United Kingdom.

Cambridge Cognition (COG)
Matthew Stork, CEO

Cambridge Cognition Holdings is a technology company developing digital health products to better understand, detect and treat conditions affecting brain health.

Henderson EuroTrust (HNE)
Jamie Ross, Portfolio Manager

Henderson EuroTrust is managed by Janus Henderson Investors who have been running investment trusts since 1934. The Trust is managed by Jamie Ross, CFA and seeks to provide a superior total return from a portfolio of high quality European investments, which excludes the UK.

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The magic number for portfolio diversification

Thinking about whether you hold too many or too few stocks and funds

Diversification is a universally agreed principle of portfolio management, for both professional and DIY investors. However, there's less consensus when it comes to achieving this in practice and also answering one of the key questions investors often ask about allocating their money: what's the magic number for how many funds or shares they should hold in a portfolio.

The truth is there isn't one number that can be picked out of the air that applies to all investors, but there are some guidelines which can help you determine what diversification looks like for your own investments.

WHAT TO THINK ABOUT WITH STOCKS

Let's start by considering a portfolio of individual stocks. You certainly don't want to put all your eggs in one basket here, because if that basket turns out to be Carillion or Patisserie Valerie, companies that ultimately ended up worthless for shareholders, you will have lost all your money.

Less dramatically, that one holding could just be a serial poor performer. In either case holding just one stock runs the risk of seriously damaging your overall wealth. But there are over 600 stocks in the FTSE All-Share index, with thousands in the global stock market, and it's neither feasible nor desirable to hold all of them.

Investors can take a leaf out of professional fund managers' books. A typical actively managed fund will hold between 50 and 100 stocks in it.

Managers who run highly concentrated portfolios like Nick Train and Terry Smith (pictured) get down to 25 to 30 stocks, which should be seen as a bare minimum for DIY investors.

That probably still sounds like a lot of companies to research and monitor, unless it's your day job, but there is a little trick you can use to reduce that number, which I'll come back to in a bit.

WHAT ABOUT FUNDS?

First let's move away from investing in individual stocks and consider how many funds and trusts should be held in a portfolio.

Each fund or trust is already a diversified pool of stocks, so you might think you only have to hold one. That may well be true for plain vanilla passive fund investors. A typical global index tracker fund will invest in around 1,500 stocks, so that ticks the box nicely.

If you invest in active funds, by choosing only one fund you may well diversify away the negative effects of one company in the portfolio failing or floundering.

But you would still have the risk that the fund manager underperforms, and that risk is higher the more concentrated the manager's own approach to investing.

A portfolio of between five and 10 active funds should prevent one fund manager's underperformance unduly affecting your wealth, or seriously derailing your retirement plans.

Investors may choose to add more if they feel up to keeping on top of a larger number of investments. If you think five to 10 funds is still too many to manage, there's that little trick I mentioned, which can help in this instance too.

CLEVER TRICK

The trick is to use index trackers as a building block at the core of your portfolio, so you don't have to worry too much about diversification in your other holdings.

Because index tracker funds invest in the whole market, by holding a decent chunk of your portfolio in these funds, you will be well diversified enough to avoid any problems arising from the underperformance of a single company or fund manager.

For instance, if you held 80% of your portfolio in a global tracker fund like **Fidelity Index World (BJS8SJ3)**, you could then invest the remaining 20% in five stocks that you like, without opening yourself up to too much company specific risk. Or if you're a fund investor, you could invest the 20% of your portfolio in one or two active funds.

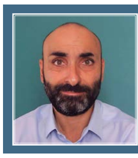
DOWNSIDES TO CONSIDER

By spreading your eggs across numerous baskets, you also reduce the positive impact an investment that performs exceptionally well can have on your total wealth, compared to if you had all your portfolio in that one asset.

Unless you are investing with perfect hindsight though, you're not going to know which investments are going to perform best.

No matter how high your conviction in an individual fund manager or company, as an investor you should always ask the question – what if I'm wrong? That's precisely where diversification comes in, allowing you to invest with confidence, even if you don't have a crystal ball.

DISCLAIMER: Daniel Coatsworth who edited this article has a personal investment in Fidelity Index World



By **Laith Khalaf**
AJ Bell Head of Investment Analysis

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results:
29 Nov: Benchmark, Character. **30 Nov:** Contango, EasyJet, Future, Gooch & Housego, Greencore, Marston's, Topps Tiles, Treatt. **1 Dec:** Residential Secure Income. **2 Dec:** AJ Bell, Auction Technology, Oxford Metrics.

Half-year results:
29 Nov: Eckoh. **30 Nov:** GB, Pennon, System1, VP, Wise. **1 Dec:** Brickability, Custodian REIT, Liontrust Asset Management, Peel Hunt, Redde Northgate. **2 Dec:** SRT Marine Systems. **3 Dec:** Industrial REIT, Mind Gym.

Trading updates:
30 Nov: DP Eurasia. **2 Dec:** Go-Ahead.

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

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THIS WEEK: 24 PAGES OF BONUS CONTENT

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Growth & Innovation

ALLERGY THERAPEUTICS

ANANDA DEVELOPMENTS

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ELECO

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POOLBEG PHARMA

PRIMARY BID

SAMARKAND

STRIX

TRACKWISE DESIGNS

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

NOVEMBER 2021

ISSN 2632-5748

Introduction

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

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

This edition is dedicated to businesses powering the global economy, whether that be in mining, oil and gas, the renewables space, infrastructure or energy provision.

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

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

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

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

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

Previous issues of Spotlight are available on our website.

The best performing small caps of the last 10 years

Finding out which smaller companies have done best over the last decade

The reason many people buy smaller companies is the scope for significant growth if a business is successful.

Smaller companies have historically outperformed larger companies because they often grow their earnings faster, so a higher exposure to small cap stocks could generate outperformance, although with added risk and volatility.

We thought it would be an interesting exercise to look at the best performing small caps over the last decade. We've focused on stocks with market caps of £400 million or less with the highest total return – encompassing capital gains and dividends.

SOMERO'S SUCCESS

Some small caps will have been so successful over this period that they will have moved out of the small cap realm and into ranks of the mid and large caps.

Of those still with small cap status, at the very top of the list is **Somero Enterprises (SOM:AIM)**. The construction industry kit maker's shares have reached new heights as it reported record first half revenue and profit for the six months to 30 June and lifted full-year guidance (8 Sep).

Somero has benefited from the shift towards buying and selling goods over the internet. Its patented and laser-guided equipment automate the process of spreading and levelling volumes of concrete for commercial flooring.

This product range is tailor-made to create the almost perfectly flat concrete floors required in the warehousing facilities used by e-commerce plays.

OTHER TOP PERFORMERS

Other notable top performers include **Water Intelligence (WATR:AIM)** which has advanced 150% in the last 12 months alone as investors have tapped into the growing demand for its technology, used to identify and fix water leaks. It reported a 42% rise in pre-tax profit for the first nine months of 2021 to $5.9 million.

SDI (SDI:AIM) is a collection of subsidiary businesses that design and manufacture digital imaging, sensing and control equipment used in life sciences, healthcare, astronomy, manufacturing and other technology-heavy industries. Its shares hit all-time highs after a positive first-half update (4 Nov) drove earnings upgrades.

Top performing small caps

Stock	10 year total return (%)
Somero Enterprises	6500
Adams	5640
Creightons	5030
Water Intelligence	3780
Best of the Best	2790
Bioventix	2020
SDI	1820
Tracsis	1730
Electra Private Equity	1710
Galliford Try	1330
Proton Motor Power Systems	1290
Eleco	1160
MTI Wireless Edge	1100
Tristel	1020
Triad	1010
Solid State	996
Lok'nStore	946
D4t4 Solutions	912
Cropper (James)	905

Source: SharePad, data as at 17 November 2021

Built environment software firm **Eleco (ELCO:AIM)** has benefited from the shift in the construction industry towards digitisation.

Allergy Therapeutics PLC

Where is the sizzle in Allergy Therapeutics?

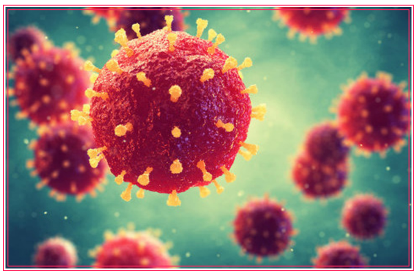
www.allergytherapeutics.com

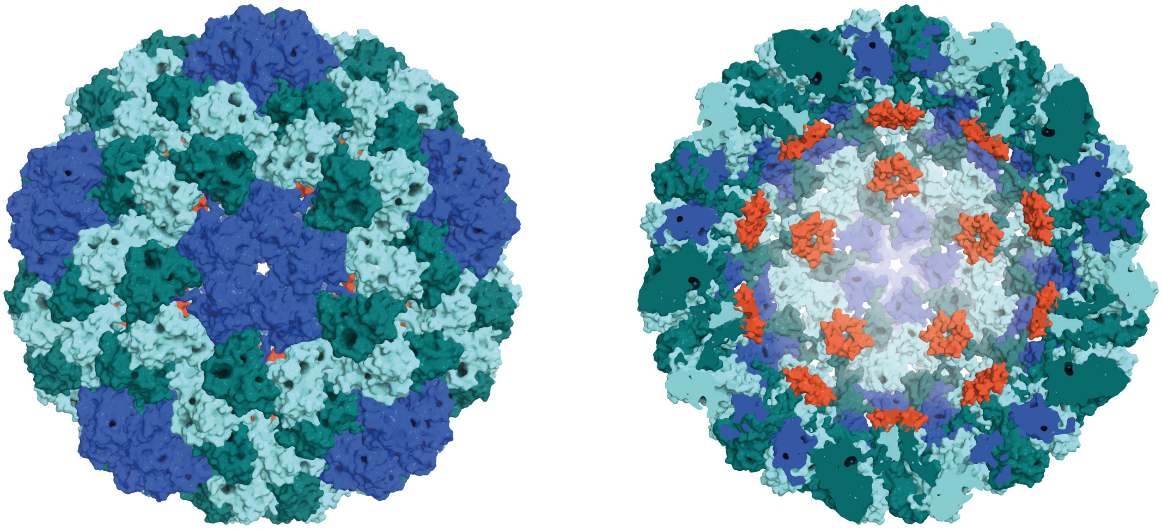
A classic American business investment question that is often asked is where is the sizzle? It is a great question to ask – what really adds value to this? In the case of **Allergy Therapeutics (AGY:AIM)**, the answer is the Pollinex Quattro platform and the Virus Like Particle (VLP) Peanut allergy vaccine candidate. Success or significant progress in either of these pipeline areas is likely to substantially increase the value of the business.

Pollinex Quattro platform

Allergy Therapeutics has just completed a very successful exploratory Phase III trial among patients suffering from grass pollen allergies, to test different placebos, different dosing schedules and scoring methods. This showed an efficacy level of 37%, well above that required by the regulatory authorities. This trial and the learnings from it will enable the group to have a much better chance of succeeding in the pivotal Phase III trial of its investigational, short course injectable immunotherapy, 'Grass MATA MPL', which is taking place over twelve months starting October 2022. Results from this study are expected in the autumn of 2023. Grass pollen is one of the most common causes of seasonal allergic rhinitis in the Western world and so success in this trial would open up the possibility, subject to regulatory approval, of a massive opportunity in an undeveloped hay fever market in the US worth potentially between $2-3 billion.

If successful, shares are likely to receive a significant boost from positive results in the trial given the few obstacles that will remain to get the product to market. Following the Grass product, there are also





Birch and Ragweed products in development which offer significant opportunities.

Peanut allergy vaccine

If you consider the hay fever market to have big potential, the peanut allergy market could prove to be even bigger, with an estimated US market size of $5 billion. The sort of value this could bring was shown in 2020 when Nestlé paid $2.8 billion for US-based Aimmune and its approved peanut allergy product, Palforzia.

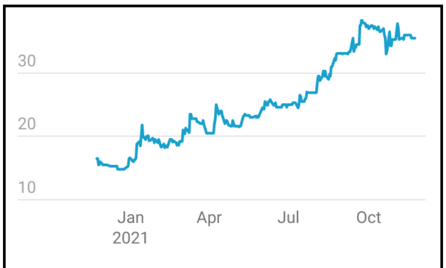
Allergy Therapeutics' next-generation vaccine candidate, VLP Peanut, is due to enter the company's Phase I 'PROTECT' trial in the first half of next year following a very successful laboratory-based ex-vivo study, carried out by Imperial College London, which examined the blood of peanut allergic patients when it was challenged with VLP Peanut or with a peanut extract. The trial showed initial evidence of VLP Peanut's hypoallergenic potential (i.e. would not cause a patient to have an allergic reaction to it) as well as strong indications of its efficacy potential and ability to induce a protective immune-response. If the PROTECT trial is successful, it would provide further evidence to support the potential of this vaccine candidate to provide a transformational treatment approach for patients suffering from peanut allergy. In contrast to Palforzia, a powder patients need to add to their food or a parent to a child's food every day to maintain desensitisation, VLP Peanut is being developed as a short-course peanut allergy vaccine. The Allergy Therapeutics product is a short-course series of injections – potentially as few as three. These would be administered in a similar way to the hay fever products, at a clinic and by a specialist doctor. The product has the potential to be disease-modifying, implying that the treatment does not need to be repeated regularly. This would truly be a game-changer in terms of treatment.

Trading business

As well as these two platforms, the group has a successful trading business with revenue of £84.3 million in 2021 and a cash balance at the end of June 2021 of £40.3 million. The group expects to be able to fully fund next year's pivotal Phase III Grass study, which could prove efficacy to support a US filing with regulators, and the Phase I VLP Peanut trial. There are also four additional, exciting VLP immunotherapy candidates in areas beyond allergy – melanoma, asthma, atopic dermatitis and psoriasis – which use the same technology platform as the VLP Peanut product.

Summary

All in all, this profitable business has plenty of 'sizzle' from two biotech type opportunities and a robust trading business.



Source: Refinitiv • Created with Datawrapper

Innovation and growth in the medical cannabis sector

www.anandadevelopments.com

Ananda Developments (ANA:AXS), a UK medical cannabis investment company is aiming to be a leading UK provider of consistent, high quality, medical cannabis that's also zero carbon.

With a global market of legal cannabis forecast to be worth $91.5 billion by 2028 according to Grand Review Research, the EU market has been growing steadily and Prohibition Partners estimates it will be worth £2.7 billion by 2025, with the UK market valued at £450 million by 2025 according to Arcview's *State of Legal Cannabis Markets, 8th Edition*.

The market has seen a 50% increase in the number of cannabis-related IPOs since 2020 with the amount raised on European public markets increasing by over 116.2%.

M&A hit record highs in 2021 with a $7.2 billion acquisition of British cannabis biotech GW Pharmaceuticals by mainstream pharmaceutical player Jazz Pharmaceuticals. Venture capital now makes up over 40% of the capital active in the market as valuations grow and angel investors get priced out according to *The European Cannabis Investment Ecosystem*, produced in partnership with DLA Piper, Enexis and

Hannam & Partners.

Ananda's innovative approach aims to reduce the carbon footprint of production and create greater transparency of the product's cannabinoid profile for the end consumer.

Ananda will use a proven low capex, low opex natural season approach and utilise approximately £4 million of

'The medical cannabis that patients can access in the UK is currently imported, and quality and consistency seems to be variable. We will be providing a UK source of premium quality flower and oils with unique strains suitable for the indications that are being treated in the UK, and with chemovars that thrive in UK conditions.

'Patients and prescribing doctors can trust they are getting a consistent, high quality UK product, which is fresher because it hasn't travelled very far, and hasn't chewed up power or transportation costs coming from the other side of the world.' Melissa Sturgess, CEO Ananda Developments.

research sunk costs to grow cannabis which will produce near zero greenhouse gas emissions without the use of artificial light or heat.

INNOVATING A GREEN FUTURE FOR UK MEDICAL CANNABIS

The location of Ananda's cannabis cultivation in the UK was chosen for its ideal climate conditions and medical cannabis will be grown within multi-chapelle structures, providing low diurnal variation in temperature.

Unlike traditional glasshouse growing, multi-chapelle structures are flexible, allowing precise airflow management to create stable temperature and humidity and a process that is low cost, clean and environmentally friendly, all within an industry which is increasingly under fire for its high-energy consumption.

The extraction technology used for the cultivated medical cannabis will also help retain the full cannabinoid and a terpene profile by using non-solvent extraction technology.

THE RIGHT TIME FOR INDUSTRY GROWTH

The United Kingdom legalised medical cannabis in November 2018 and since then

the industry has been growing steadily in the same way as other legalised countries.

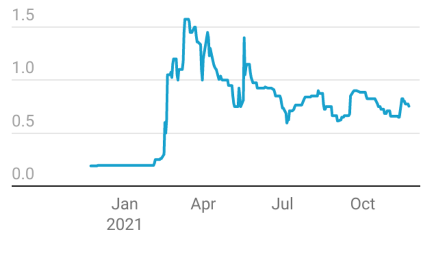
The acquisition of 50% of DJT Plants in June 2019 secured a 50/50 deal with experienced UK cultivators who previously held Home Office licences to grow medical cannabis for GW Pharmaceuticals, providing a fast track into growing medical cannabis firstly for research and ultimately commercially.

In May 2021, DJT Plants Limited (Ananda's currently 50% owned subsidiary) received a Home Office Schedule 1 licence to cultivate >0.2% THC cannabis for research purposes. That research is to grow 65 strains for use in large-scale research. Following receipt of this licence, Ananda agreed to acquire the remaining 50% of DJT Plants Limited for shares in Ananda, thereby bringing it fully in-house.

Ananda's best in class horticultural/agronomic team of medical cannabis cultivators will be teaming up with world leading cannabis geneticist Dr Dedi Meiri and his team at the Laboratory of Cancer Biology and Cannabinoid Research at the Technion Israel Institute of Technology to drive analysis and understanding of the research undertaken.

Scalability through low capex and low opex production will match demand and maximise returns with the highest standards. Ananda's business model places importance on a patient-led approach, listening to and meeting the needs of the patient to inform the development of its products and innovation.

Ananda is taking the unique opportunity to place itself at the leading edge of Europe's cannabis supply and to provide the best quality, consistent cannabis flower and oils, at the highest standards, whilst creating shorter supply chains to the UK and European markets.



Source: Refinitiv • Created with Datawrapper

BraveBison

Brave Bison is the UK's challenger digital advertising company

www.bravebison.com

Brave Bison (BBSN:AIM) is a social and digital advertising company, headquartered in London with additional offices in Singapore and Eastern Europe.

Brave Bison is unique in that it is both a digital media owner, as well as a digital media agency. The company owns and operates its own channels, and the communities attached to them, as well as offering clients a suite of advertising services to help reach digital audiences.

Brave Bison has two core lines of business. Firstly, the publishing of content on social media channels to generate advertising revenue. Brave Bison operates over 650 channels including PGA Tour and US Open on YouTube, Cooking Wild and DIY & Crafts on Facebook and Slick and VSatisfying on Snapchat. The amount of revenue generated from a channel depends on how many people watch the content, who these people are and where they are based.

The second line of business involves the execution of social and digital advertising campaigns for global, blue-chip brands such as Panasonic, New Balance, Primark, Vodafone and Samsung. Key advertising channels include Paid Search (on advertising platforms such as Google and Amazon), Paid Social (on advertising platforms such as Facebook, Instagram and TikTok), Influencer Marketing and eCommerce Technology (on commerce platforms such as SAP, Salesforce, Bigcommerce). These advertising services generate fee-based income, typically from clients retained for 12 months or more.

TURNAROUND STORY

Brave Bison is run by Oli and Theo Green, two brothers who have been building a stake in the business since 2019. Oli and Theo, who act as executive chairman and chief growth officer, respectively, invested £1 million in the recent fundraising and their shareholding now totals just over 22%. Oli and Theo did not take salaries in 2020.

The brothers took executive roles in April 2020 and, alongside newly appointed CFO Philippa Norridge, set about transforming both the earnings and growth profile of the business. The business was repositioned around its fastest growing business lines such as Influencer Marketing and Snapchat Publishing, and Brave Bison acquired The Hook, a leading youth entertainment brand, out of administration.

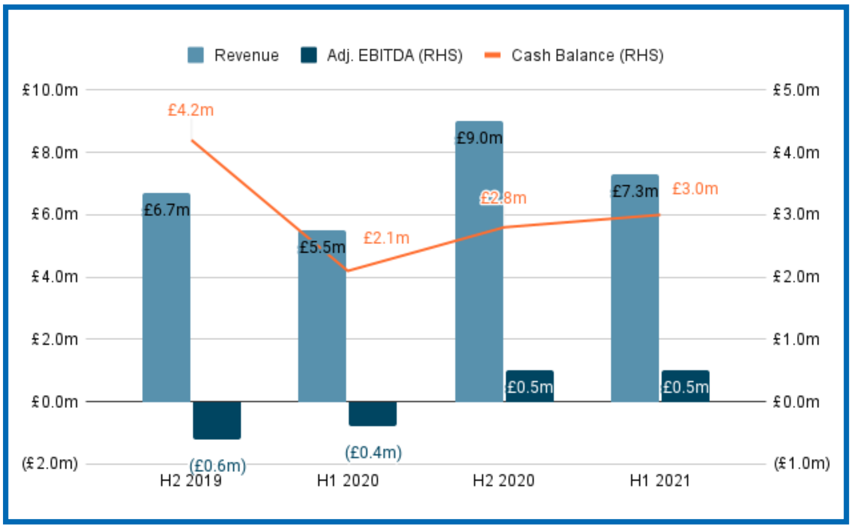
By the second half of 2020 revenue had returned to growth and Brave Bison finished 2020 with a small adjusted EBITDA (earnings before interest, tax, depreciation and amortisation)

£0.1 million

profit of £0.1 million (2019: -£0.4 million).

Earnings growth accelerated further in 2021, when Brave Bison reported H1 2021 adjusted EBITDA of £0.5 million (H1 2020: -£0.4 million) and profit before tax and acquisition costs of £0.4 million (H1 2020: -£1.4 million), as well as a strong cash balance of £3.0million (H1 2020: £2.1 million).

In addition to strong top and bottom line growth, Brave Bison has been growing its cash position. In H1 2021, Brave Bison announced £3.0 million of gross cash and £2.9 million of net cash, a substantial increase from the prior year.



BRAVE BISON DOUBLED REVENUE THROUGH GREENLIGHT ACQUISITION

Brave Bison's much improved earnings profile allowed the Company to acquire digital advertising and ecommerce company Greenlight in September 2021. The Company acquired the business for a total consideration of £6.75 million, funded partly through an oversubscribed £6.2 million share placing to existing and new investors, including institutions Lombard Odier, CIP Merchant Capital and Premier Miton.

The acquisition was transformational for Brave Bison, doubling the company's 2020 pro-forma revenues to £28.8 million and significantly enhancing pro-forma EBITDA. Furthermore, Brave Bison increased its exposure to fast-growing digital advertising services such as Paid & Organic Media and eCommerce Technology.

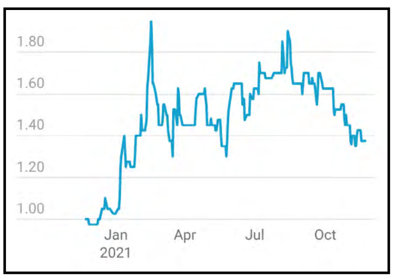
Brave Bison and Greenlight will be fully integrated and there are a number of synergies expected between the two businesses. Brave Bison has a lease expiry in H2 2021 and there are multiple cross-selling opportunities, for both new services and new markets.

FUTURE GROWTH & ACQUISITIONS

Brave Bison is well placed within the digital advertising market to capitalise on future growth within the industry, and the company's unique position as both agency partner to brands and social publisher for platforms creates a distinct advantage.

Brave Bison is actively investing in new advertising capabilities, such as Influencer Marketing and Social Media Management, based on demand from existing and new clients. Furthermore, the Company is building reach and audience affinity in its existing network of channels, as well as adding new channels in growth verticals such as sports and music. As the size of the media network grows, so does its attractiveness to brand advertisers working with Brave Bison as an agency partner.

Finally, Brave Bison continues to look for accretive and strategic acquisitions that will give the company a head-start in key markets, as well as increasing scale and improving margins.



Eleco: building on technology

www.eleco.com

Eleco (ELCO:AIM) is a progressive software specialist providing solutions to the built environment, from early planning through to maintenance as well as niche product areas including interior visualisation, timber engineering and staircase manufacturing.

From its 1895 origins as a manufacturer of lighting, the Company has been on a journey of continual evolution and innovation to where it sits today as a provider of software solutions and related services.

COLLABORATION AND VISION

With the increasing adoption of technology in the built environment and continuing focus on efficiencies, new building techniques and sustainability, having the technology to provide accurate and timely information with a collaborative approach has never been more important.

Eleco's vision of *'creating certainty for the built environment with world-class solutions'* aligns itself with these industry drivers and the core of its customers' needs, driving better decision making, timely delivery and the reduction of cost in a safe, sustainable way.

Awarded 'Project Management Software of the Year' at the recent Construction Computing Awards, the company has built long-standing and trusted relationships with its customers. Working closely with them to prioritise new features and developments has made its solutions extremely difficult to replicate. In turn, the software enables customers to de-risk and drive efficient operations, enhanced by professional training, technical support and consultancy services.

By committing 13% of its revenue to product development, Eleco reported in its interim results that 55% of its revenue is recurring, demonstrating strong customer retention and predictability of its earnings. Its clients include a significant number of the UK, Swedish, German and Dutch main construction contractors as well as housebuilders, retailers and product manufacturers.

STRATEGY FOR GROWTH

Earlier this year, the board announced Eleco's growth strategy, outlining its intention to transform the Company into a customer-centric market leader in the provision of software for the construction and built environment industry sectors, targeting expansion in key growth markets.

Eleco will also continue

to create shareholder value through the expansion of its product portfolio into existing geographies, such as direct sales of ShireSystem into the German market.

Good progress on the strategic initiatives has already been made, and following a strong performance in the first half of 2021, the board announced its intention to commence its transition toward a SaaS business in Q4 of 2021.

SUPPORTING CUSTOMER SUCCESS

Eleco's customer-centric focus can be seen in its work with new customer Wren Kitchens, the leading kitchen retailer and manufacturer in the UK. ShireSystem, the company's maintenance management software, was integrated into Wren's supervisory control data system through APIs to monitor manufacturing performance and to automate the process of maintenance and repairs.

This has provided immediate benefits, with precheck processes being reduced from one hour to only 10 minutes and an improvement in their work practices as they aim to achieve a 15% to 20% increase in output.

Eleco has also demonstrated its commitment to the success of existing customers such as VINCI Construction UK, who selected Powerproject Vision, Eleco's SaaS portal for collaborating on construction schedules, to support the digital transformation of their planning process.

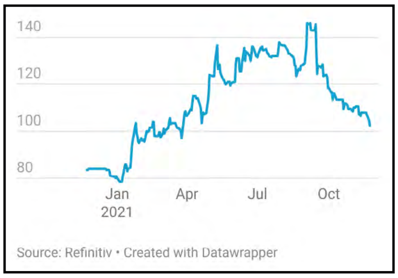
This is making life easier for their planners, who can use the same templates and methodology across all of their sites. The standardisation of workflows also improves governance and provides real-time visibility of project stages, gateways and authorisation, a real leap forward in collaborative planning.

FROM STRENGTH TO STRENGTH

The board has always been conscious of investing for return, and this mindset is engrained in Eleco's culture and working practices.

Key and leading performance indicators have been refined to enhance the Company's growth platform and strengthen its financial position and further emphasis will be placed on employee engagement through clearly outlined employee success initiatives. Continuing focus will be given to wellbeing, personal development, succession planning and aligned objective setting.

Despite the unique pressures of Brexit and Covid-19, Eleco has continued on its successful path of transformation and remains a company unafraid of change. It is proud to contribute its solutions to construction and the built environment and to be part of an exciting and attractive industry where technology continues to be a key enabler to success.



Petards is positioned for growth

www.petards.com

Petards (PEG:AIM) is a well-established AIM-listed software developer of advanced security and surveillance systems, providing technology based solutions to the Rail, Traffic & Defence sectors.

SECTOR SYNOPSIS - POSITIONING FOR GROWTH

Petards Rail designs hardware and software systems which are located on-board trains under the 'eyeTrain' brand. These are primarily used in support of train drivers during their journeys, enabling visual camera surveillance whilst simultaneously recording data for them and for the train operators at their operational centres. These products have been developed over many years in close consultation with train builders, owners and operators with the product offerings continuing to grow through the adoption and utilisation of new technologies.

The surveillance and data collection systems provide on-board saloon cameras and a range of externally fitted cameras and sensors. Current products also include forward facing track debris detection and a technically advanced Automatic Selective Door Opening (ASDO) system linked to Global Satellite Positioning (GPS) technology. These products are all rail approved and meet the standards of compliance required for new train build and the UK retrofit market.

Petards RTS a software based business that licenses its operational Health & Safety software packages to Network Rail and its Tier 1 contractors as an essential part of their working on the UK on-track rail infrastructure. The software packages are a support tool for the contractors compliance with Health & Safety requirements in advance of their commencing work on the track.

Petards QRO, is a specialist camera and software integrator of traffic, number plate recognition and highway products. QRO integrates the 'best of breed' third party camera products together with its own suite of hardware products which are designed and developed by its own in-house hardware team and powered by its proprietary software. The business has continued to grow and improve its market presence through the establishment of framework agreements with a number of the UK law enforcement agencies and local authorities.

The Petards defence business is a long established supplier of defence related electronic countermeasure protection systems, mobile radio systems and related engineering services to the UK Ministry of Defence (MOD) as well as defence companies within countries forming the North Atlantic Treaty Organisation (NATO).

TECHNICAL - DYNAMIC APPROACH

Petards prides itself on the quality of its products and the commitment of the dedicated people who work within the organisation. With a large proportion of highly skilled and experienced people working within the business possessing an engineering doctorate or an engineering qualification, the leadership teams are able to proactively enhance the quality of product offerings, thereby providing the solutions and support that meet the needs of their customers.

By providing strong technical liason and support on projects to customers has enabled the businesses to enhance products with a competitive edge. These key customer relationships form an important partnership with new technologies being embedded into their new products together with additional applications.

Petards has established a new 'Petards Technology Centre' with a highly qualified in-house team to accelerate new product development within their respective markets. They are presently focussed on data capture, data transmission and analytics to improve their market position and fuel organic growth and value in the coming years.

The strengthening of software expertise within the group was a core strategic objective which together with the establishment of the new Technology Centre will support all group companies.

BOARD LEADERSHIP

The board is chaired by Raschid Abdullah with three other supporting directors. The board primarily deals with the strategic direction and investment decisions for the group, ensuring the group's financing requirements, relationships with the company's NOMAD, AIM listing compliance and relationships with investors as well as reviewing potential business opportunities.

Petards Group operates as a holding company with each operating business having its key performance drivers which include pre-approved budgets, cash flow forecasts, profitability targets, capital allocation and returns on capital employed, driven by a dedicated managing director or general manager who reports directly to the group CEO.

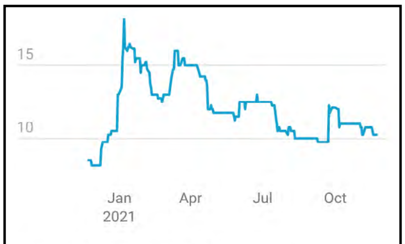
They are given responsibility with accountability, operating their businesses autonomously coupled with monthly reporting to the centre with a focus on the key performance drivers which are analysed and monitored by a small team at the centre.

PREVIOUS ACQUISITIONS

Since 2016, Petards has made two small acquisitions for cash both which have proven successful in terms of business growth with the winning of new business being a key driving force.

RECENT TRADING RELEASE

On 23 September 2021, Petards released to the market their trading update statement in respect of the six months ended 30 June 2021 with a copy on Petards website. That stock market release reported on a return to profitability at all levels and strong cash generative performance. The actions taken in 2020 to reduce the cost base fed through to an improved gross profit margin of 39.6%, up from 34.4% in the comparative period, with post tax profits totalling £430,000. Cash generated from operating activities was £1,669,000 and at 30 Jun 2020 Petards reported closing cash balances of £3.5 million and a net cash position of £2.7 million. It also reported a period end £9 million order book and that trading for 2021 remained broadly in line with market expectations.



Source: Refinitiv • Created with Datawrapper

POOLBEG PHARMA

Building a leading infectious diseases company

poolbegpharma.com

Infectious diseases have, over the last decade, been a relatively under-funded area of pharmaceutical research with 'Big Pharma' deprioritising R&D in this space.

But then an unprecedented global pandemic brought about devastating human and economic damage, the impact of which will take a generation to overcome. For the pharmaceutical and biotech sectors, it has brought about extensive refocusing on infectious diseases, especially for those with respiratory and inflammatory conditions.

AIM-quoted **Poolbeg Pharma (POLB:AIM)**, a clinical-stage, infectious disease pharmaceutical company, is uniquely placed to target this substantial infectious disease market, which is expected to grow to $250 billion by 2025.

Founded in March 2021 as a spin-out from Open Orphan, it listed in July in an oversubscribed £25 million raise. CEO Jeremy Skillington alongside Non Exec Director of Poolbeg, Prof Luke O'Neill, was part of the Inflazome team, which sold to Roche in 2020 for €380 million upfront plus downstream milestones. Alongside **Open Orphan (ORPH:AIM)** co-founders Cathal Friel, Ian O'Connell and Carol Dalton, Poolbeg's Board and Executive team have extensive experience in creating value for shareholders and have completed 4 health sector IPOs.

A PROFITABLE PROPOSITION

Poolbeg has a capital light business model which enables it to develop assets to be Phase II ready quickly, with minimal investment, where they can be acquired by big pharmaceutical companies for significant upfronts and milestone payments. It aims to develop drugs for infectious diseases by both in-licencing drug candidates (with minimal upfronts) and also by repositioning existing drugs that have been developed for other diseases. This is quicker and cheaper as these existing drugs have already passed the safety stage in humans, the Phase I stage.

In an approach that is different to other biotech companies, Poolbeg will allocate a maximum of £5m development costs per drug candidate before licencing / selling to Big Pharma. These licencing opportunities to Big Pharma often bring returns of £100 million plus with significant milestone payments, a good return on a £5m investment. Full Phase II studies (i.e. in patients with disease) can cost around £20 million, however Poolbeg Pharma will only develop drugs to a Phase Ib or IIa stage, which involves small and quick in-patient studies. Once completed, these assets can be successfully sold or licenced to Big Pharma to develop further and commercialise.

A UNIQUE POSITION IN THE MARKET

The key differentiator to other companies developing drugs in the infectious disease space is Poolbeg's access to a bank of unique data and 300,000 biological samples gathered over 20 years of infectious disease challenge studies in humans including influenza and Respiratory syncytial virus (RSV) amongst others. This data, via an Open Orphan subsidiary, hVIVO, is a very valuable asset.

These data and samples, has and will identify validated infectious disease drug candidates before spending anything on development. The traditional biotech model can take up to 5 years and tens of millions just to identify drug candidates. Poolbeg's method has already proven to be fruitful, with its first clinical asset, POLB 001, identified using this data. The company plans to partner with AI companies to accelerate this process while

reducing the cost. Analysts view POLB 001 as a "very exciting and potentially highly valuable" drug that has been repositioned to treat severe influenza and potentially other virus-induced respiratory diseases.

KEY DRIVERS FOR LONG-TERM GROWTH

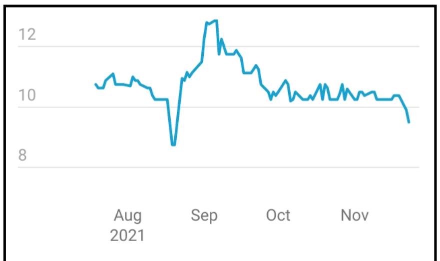
Poolbeg's capital light and early clinical data approach means it expects to be able to monetise five or six assets in the same cost and timeframe as the conventional biotech approach takes to develop one. Combining the unique database access with AI analysis platforms will also dramatically increase the success of repositioning drugs into this new disease space.

Poolbeg may also opportunistically in-licence infectious disease drug candidates in development by other biotechs which have clear potential and synergies with Poolbeg's expertise and areas of focus. Along with POLB 001, Poolbeg intends to continue expanding its portfolio, identify vaccines from the vaccine discovery platform and commencing clinical studies for other assets.

FOCUSED ON SCALABLE PROFIT

Poolbeg's focus on acute infectious diseases means trials can be conducted quicker and cheaper than chronic diseases such as cancer and rare diseases, which can take years. The renewed interest in treating infectious diseases following the COVID-19 pandemic means that the small amount of human trial data generated by a Phase Ib or Phase IIa study will be enough for Big Pharma to be interested in early licencing deals. Particularly given the current trend in Big Pharma for sourcing clinical candidates via in-licencing, acquisition or co-development along with in house discovery.

The company has a scalable platform for growth with a proven, streamlined method of identifying drug and developing drug candidates, access to key data to drive that platform, and well-protected intellectual property. Poolbeg's experienced management team have built revenue generating businesses and achieved significant exits, so with it's Phase II ready asset and imminent AI deals, the company intends to capitalise on the immediate $800m market for influenza drugs and that potential $250 billion market for infectious diseases post-Covid.



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PrimaryBid: fostering innovation and inclusion in capital markets

primarybid.com

PrimaryBid believes it's time that you get the same access to public market offers as institutional investors. That's why it built its platform with the aim of providing better, fairer and completely free access to public market investments that aren't typically available.

WHAT PRIMARYBID DOES

Backed by the London Stock Exchange, PrimaryBid sits at the heart of the financial ecosystem and enables retail investors and public companies to seamlessly interact during fundraises. On its platform, individuals can invest in initial public offerings (IPO), follow-ons, investment trusts, bonds and other deals.

What's more, with quick and easy access to public companies raising capital, individuals can invest in these offers at the same time and at the same price as institutional investors.

WHY DOES THIS MATTER?

Public markets were created to allow everyone to invest in and own companies they believe in. Yet the public has been missing out on valuable share offers for decades. Until recently, the technology was simply not available to enable retail inclusion at scale.

PrimaryBid is changing that. It has created a platform to make sure public markets are inclusive, transparent and fair — as they were always meant to be. In turn, PrimaryBid has provided individuals with access to more than 200 transactions on behalf of small and large-cap companies in the UK's FTSE and AIM indices — including **Croda (CRDA)**, **Ocado (OCDO)**, **Taylor Wimpey (TW.)**, **Aston Martin (AML)** and **Severn Trent (SVT)**.

Both individual investors and public companies stand to benefit when capital markets are accessible to all. The good news is that the pressure is mounting from government and regulators to address the lack of retail inclusion in public markets, and a growing number of issuers are opening up their fundraisings to individual investors.

PrimaryBid is at the forefront of this inclusion agenda — building innovative technology solutions to improve market access and facilitating wider participation in the ownership of public companies.

SAMARKAND GROUP plc.

Samarkand – accelerating e-commerce in the world's largest market

SHARES AWARDS 2021 WINNER AQSE Company of the Year

samarkand.global

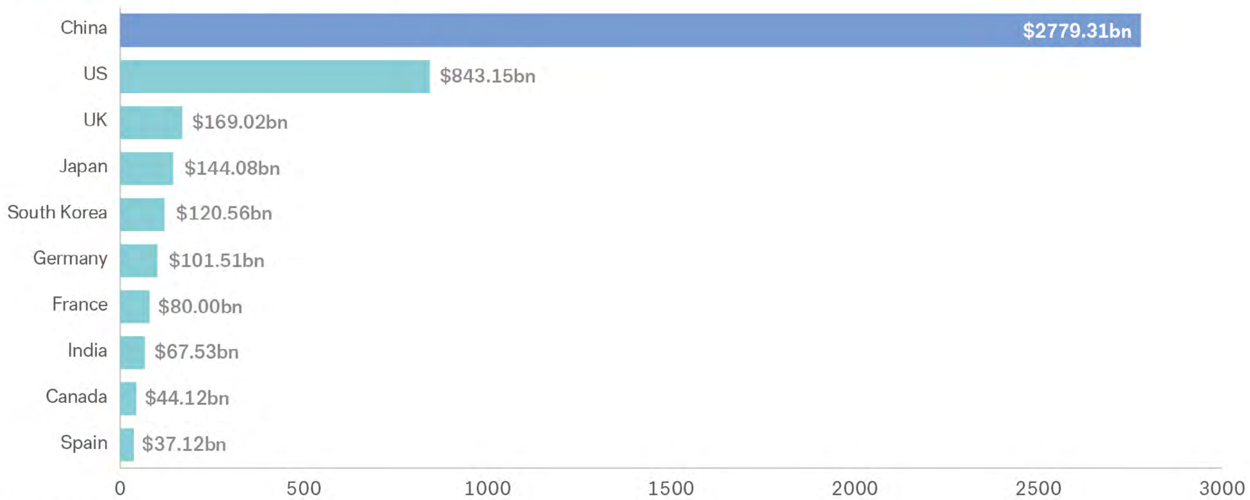
Samarkand (SMK:AQSE) is a cross-border e-commerce technology and retail group focusing on connecting international brands with China, the world's largest e-commerce market. The Chinese e-commerce market alone accounts for over 50% of global e-commerce sales, larger than the next top 10 markets combined. China is the clear global leader when it comes to e-commerce, in 2021 eMarketer forecasts that 52% of retail transaction in China will happen online.

Whilst a large and attractive market for many international brands, gaining access can be complex, expensive, and has a unique set of risks and challenges. The e-commerce landscape is completely different to the West.

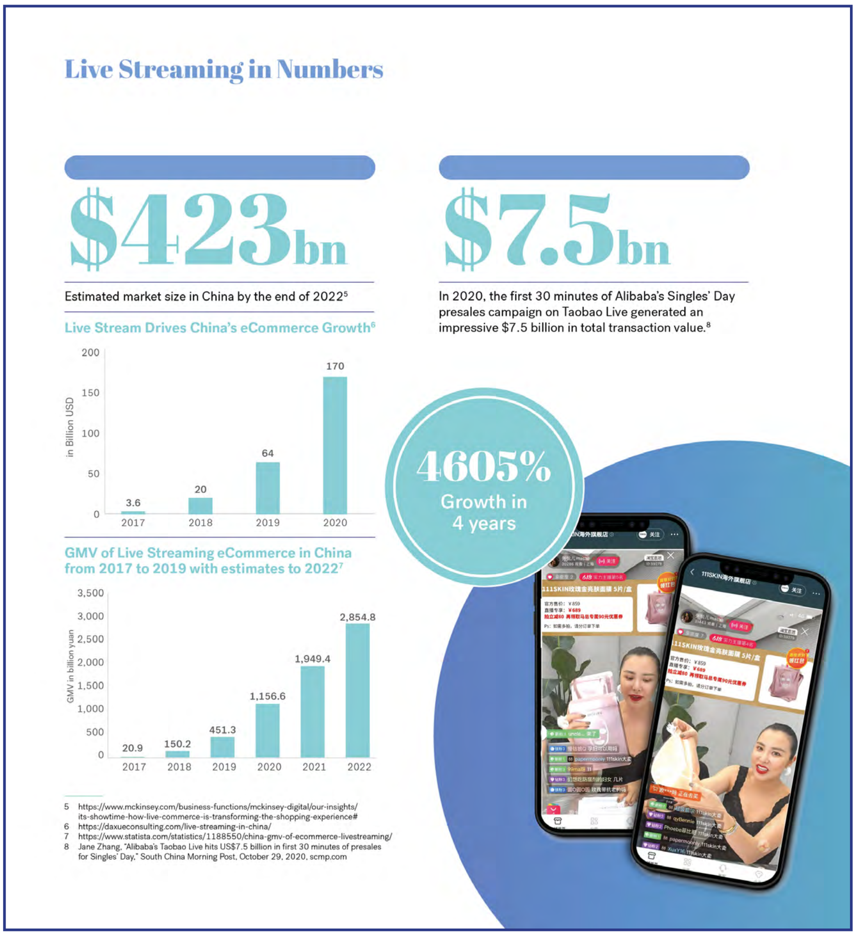
There is no Amazon, Facebook, Google, Visa, Mastercard or many of the other familiar Western technologies and services that international brands rely on for international expansion. Instead, a completely different range of e-commerce platforms, social networks, payments and logistics companies dominate e-commerce in China.

Samarkand has developed a proprietary software platform, the Nomad platform, which is integrated across all necessary touchpoints required for e-commerce in China including e-commerce platforms, payments, logistics, social media and customs. The Nomad platform is the foundation on which the group's technology and service solutions are built.

eCommerce Sales by Country (2021)



Source: eMarketer



The company has three core growth pillars, which together, provide a balanced platform for growth across the short, medium and long term. These are brand ownership, e-commerce acceleration and SaaS technology that makes cross-border e-commerce in China accessible to brands and merchants of all sizes.

BRAND OWNERSHIP

Complimenting the technology and managed services a 'buy in the West, build in the East' acquisition strategy has successfully been developed. Samarkand now owns a portfolio of three unique and complimentary consumer goods brands, all of UK provenance and with high growth potential in China and beyond. Brand ownership has served two important roles for the group during its development.

Firstly, high gross margin sales have funded the growth of other parts of the business allowing the group to grow organically during its formative years. Secondly, it has made it possible to develop new solutions, open new channels and platforms that can then be deployed for client brands.

E-COMMERCE ACCELERATION

Powered by the Nomad technology platform are two solutions built to accelerate sales for international brands in China. These work across the dominant e-commerce platforms and social media channels in China. The first is Nomad Storefront which facilitates sales across major platforms such as Tmall and RED. e-commerce stores are built and managed on behalf of third-party brand clients. Through the integrations with Nomad and supported by the operational teams in the UK and China brands can access the 900m shoppers using these platforms each month.

The second is Nomad Distribution which leverages the enormous selling power of social media in China, known as social commerce. Social commerce in China is highly fragmented with many KOLs working across a range of e-commerce channels and platforms, which makes it difficult for international brands to access this route to market in an efficient manner.

Nomad Distribution integrates with multiple social commerce channels and provides a way for brands to penetrate this market and promote their products in China. Through Nomad Distribution, a KOL's followers can purchase and receive the Client's products via drop-shipping from the group's fulfilment centres in the UK and China.

CROSS-BORDER E-COMMERCE AS A SERVICE

Marketplaces such as Alibaba's Tmall enjoy a large share of the consumer spend but are not suitable for all international brands, many of whom have excellent products with high potential in China but are unable or unwilling to operate on Chinese marketplaces. Merchants prefer to maintain the direct-to-consumer strategies they have in other international markets rather than rely on marketplaces.

The problem they face however is there are many obstacles for Chinese consumers buying products

from foreign websites, including site speed, localisation, payments, shipping and customs. Nomad Checkout works with e-commerce software platforms such as Shopify as a plug-in technology that quickly and cost-effectively removes these obstacles and allow Clients to use their existing e-commerce infrastructure to reach and sell directly to these consumers.

CHINA – LEADING THE WORLD IN E-COMMERCE

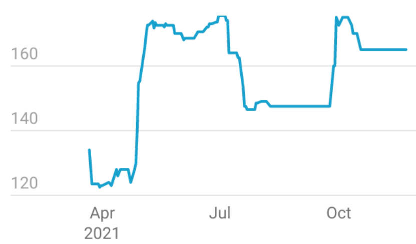
Samarkand Group plc is one of the few Western companies at the forefront of the next generation of e-commerce that has evolved in China. Due to the size and rate of change, Chinese e-commerce is a far more developed market than the West, commentators suggest China is five or 10 years ahead in some cases. Innovative technologies, trends and business models have developed at incredible speed and scale, some of which are starting to appear outside of China and look set to revolutionise e-commerce globally.

One such area is live stream commerce which has grown from $3.6 billion in 2017 to an estimated $423 billion next year. If live stream e-commerce were a country, it would be the third largest market in the world. In the USA companies such as CommentSold have already reach Unicorn status as early movers in this e-commerce format and Chinese tech giant ByteDance has recently launched live stream commerce in the UK on its TikTok video platform.

The growth of global e-commerce has accelerated during the pandemic and more consumers than ever before are shopping across borders and online. Samarkand Group is laying the digital pipes and the plumbing that will help international brands transact more easily and profitably with the largest market of them all, China.

SAMARKAND - QUICK FACTS

- Listed on the AQSE Growth Market in March 2021 in an oversubscribed IPO raising £17m and corner stoned by Schroders £5 million
- Strategic Investment from Smollan Group one of the world's largest retail service companies and SF Express, one of China's leading express delivery companies.
- A team of 150 people across three locations in the UK, China and Japan
- Revenue FY2021 £20.6 million Revenue FY2020 £6.8 million
- Winner AJ Bell Shares Awards 2021 - AQSE Company of the Year



Source: Refinitiv • Created with Datawrapper

Strix focused on diversification and sustainability

www.strix.com

Strix (KETL:AIM) is an Isle of Man based global company and a world leader in the design, manufacture, and supply of kettle safety controls in addition to other components and devices. It has been admitted to trading on the AIM Market of the London Stock Exchange, and has grown into a global business.

A new 'Sustainable. Innovative. Dependable' Strategy was recently launched in 2021 with a commitment on a decarbonisation target for scope 1 and 2 to be net zero by 2023.

DIVERSITY

Focus has been to become a global leader with sustainable growth from diverse revenue streams. The long-term vision has always been to vary revenue streams across three core categories – Kettles, Water, Appliances – through the implementation of growth and sustainability strategies. Strix offers an attractive investment case with its market leading kettle controls position as well as significant growth opportunities in the Water and Appliances categories, strongly underpinned by focus on ESG and sustainability.

KETTLES

Strix's core products are safety controls for small domestic appliances, primarily kettles. The company has positioned itself as the market leader in the kettle controls market with a value market share estimated at c.56%. Strix has established a strong reputation for safe, dependable products that will achieve the highest level of performance whilst meeting all safety requirements. Increased emphasis has also been placed on developing products which reduce environmental wastage through minimising energy losses and reducing commodity wastage.

WATER

Strix continues to develop its specialist water filtration offerings, improving the quality of water through its Aqua Optima and astrea brands. It is also making use of its HaloPure offering of a water sterilisation technology eliminating bacteria and viruses within livestock farming.

Together, these brands deliver global solutions for

water filtration and sterilisation needs through the delivery of water bottles, jugs, filters and other related appliances. Given the ever-increasing consumer focus on health-conscious choices and reducing plastic waste, Strix can offer sustainable choices to the end consumer.

APPLIANCES

Strix continually seeks to develop innovative appliances within its portfolio of water, temperature and steam management technologies which take the frustrations out of everyday tasks, and provide meaningful benefits to customers through convenient, simple and sustainable solutions.

The Research and Development Team continues to focus on enhancing the

efficiency of products by working closely with key partners and own brands to bring product innovation delivering core benefits in usability and sustainability. Innovation therefore drives Strix's future product roadmap, which has consequently enabled Strix to improve energy efficiency within many products.

LAICA

LAICA was acquired in October 2020 and has an established product range with an advanced new product roadmap. The acquisition provided some strategic consolidation of the water treatment range, also driving efficiencies and providing a comprehensive portfolio of products for the group globally. Strix's experienced management team worked hard to ensure the integration of LAICA was executed effectively to achieve identified benefits, and the trading performance has been strong, delivering double-digit revenue growth.

DOUBLING REVENUES

At the capital markets day held last November, the group outlined its medium-term strategy stating it expects to double revenues over the next five years primarily through organic growth in its Water and Appliances categories. Strix continues to actively seek opportunities that will add value across the group through niche acquisitions or technologies. Alongside this, it will continue to grow market share in kettle controls.

ESG

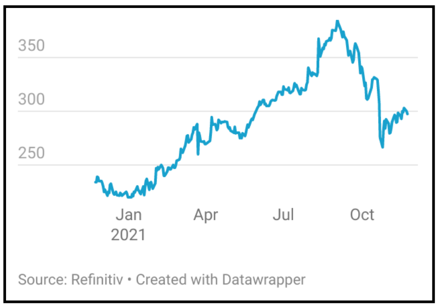
Sustainability remains of critical importance to the way the group operates and the future of Strix. The Company committed to embed sustainability into its business strategy and provide a safer sustainable future for its customers. In 2020, the group reassessed its approach to sustainability with a view to integrating a sustainability strategy within core business activities aligning themselves with the UN's Sustainable Development Goals (SDGs).

NEW FACTORY

Supporting the company's expansion plans and new product development, a new state of the art facility within the Zengcheng district in Guangzhou, China, was built and completed in August 2021. This has enabled business growth and delivery of the stated strategy of doubling revenues over the next five years. Efficiencies and further in-sourcing are expected to have a positive effect on margins.

OUTLOOK

The company has a very resilient business, with good liquidity and strong cash flow. For Strix the focus is all about the future, with the sustainability strategy at the core of business. It has updated medium-term targets to double the group's revenues over the next five years primarily through organic growth in its Water and Appliances categories.



TRACKWISE
CONNECTING TECHNOLOGY

Trackwise targets electric vehicle opportunity

www.trackwise.co.uk

Trackwise Designs (TWD:AIM) is a UK manufacturer of innovative, specialist printed circuit products. The company was founded in 1989 and listed on the Alternative Investment Market in July 2018.

Over the past 30 years, Trackwise has developed a strong track record of manufacturing high-quality printed circuit technology, serving customers across Europe, North America, Asia and Australia. The company manufactures its printed circuit board (PCB) products under two divisions: the company's Advanced PCBs division and Improved Harness Technology (IHT). In recent years, IHT has emerged as the most exciting growth area for the business.

Since IPO, Trackwise has made significant commercial and operational headway, and in 2022 will move into its next phase of development with the opening of a new third production facility and the first series production orders from its UK EV (electric vehicle) customer.

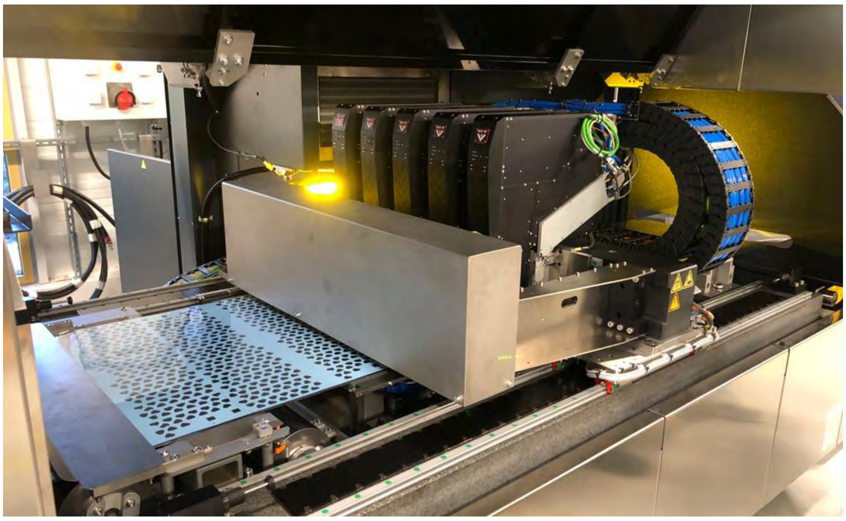
COMPANY OVERVIEW

The long-established Advanced PCBs division predominantly serves the telecommunications market, including production of the antennae in 4G and 5G network infrastructure. These antennae are also used in security applications, defence and aircraft radar systems, avionics and ground

penetrating radars.

The IHT division manufactures flexible printed circuit boards (FPCBs), which serve as a smaller and lighter alternative to traditional wire harnesses. Historically, FPCBs were typically limited in size due to manufacturing constraints, but IHT represents a disruptive technology through the production of flexible printed circuit boards of unlimited length, saving manufacturers weight, space and time.

Because of its transformative benefits, IHT represents a highly desirable technology across a number of industries which traditionally require wire harnesses. Trackwise's ability to manufacture length-unlimited multilayer FPCBs is unique, and IHT is patented across China, Europe, the



USA and Canada, with a further impending grant expected from Brazil. However, Trackwise has identified the electric vehicles, medical devices and aerospace markets as the core near-term target markets for IHT.

ELECTRIC VEHICLES: PRIMED FOR GROWTH

Electric vehicles represent the primary scale-up opportunity in IHT in the short-medium term. In September 2020, Trackwise announced a significant commercial milestone for IHT through a major product manufacture and supply agreement with a high-profile UK manufacturer of electric vehicles for the supply of its flexible printed circuits for use in high and low voltage circuits in the manufacturer's vehicle battery modules and battery packs.

This agreement was later extended to four years in June 2021 and came with a significant increase in expected volumes and potential value. The agreement is now worth up to £54 million, with the first material revenues from the contract expected in the first half of 2022.

To meet the growing demand for IHT, over the past 18 months Trackwise has focused on expanding its production facilities to manufacture IHT at scale. Firstly, in April 2020, Trackwise announced the acquisition of Stevenage Circuits Limited (SCL). While this diversified the Company's revenue streams and customer base, it also enabled the transfer of the production equipment of Trackwise's Advanced PCBs business from its original Tewkesbury location to the new Stevenage site, freeing up the former to focus exclusively on production of IHT.

However, the demand from the Company's electric vehicle customer, alongside the growing interest from medical appliance customers, aerospace and other industrial businesses, is growing and will shortly exceed the capacity in Tewkesbury. As a result, Trackwise has entered into its next expansion phase to increase capacity.

MEETING THE DEMAND: TRACKWISE'S THIRD MANUFACTURING FACILITY

In May 2021, Trackwise announced the completion of the acquisition of a 77,000 sq. ft freehold property in Stonehouse, Gloucestershire, for £2.8 million. Following a comprehensive review process, this site was selected due to its superior layout, location and costs, and is located around 20 miles from the company's Tewkesbury headquarters.

The Stonehouse facility is being equipped with a semi-automated, roll-to-roll IHT production line, specifically set up for high-volume, low mix volume production – as opposed to the low-volume, high mix capability developed and implemented in Tewkesbury. This site therefore very significantly increases the company's IHT production capacity – and represents one of the largest 'green field' investments in UK PCB manufacturing for many years.

Importantly, the new Stonehouse site has capacity for the installation of a second line in the future, meaning Trackwise will be primed to meet this further expected demand for IHT from a range of sectors, including electric vehicles, when required. This long-term pipeline of demand has become increasingly clear in 2021. In line with the greater call for greener technologies globally, several 'gigafactories' – factories producing batteries for electric vehicles on a large scale – are expected to be established in the UK and Europe over the coming years.

Additionally, many of the major automotive manufacturers have responded through the electrification of their operations, including, BMW, which has reportedly ordered $24 billion worth of battery cells to support its production of electric vehicles. These manufacturers will require battery cells to be interconnected, paving the way for a significant need for Trackwise's IHT.

The factory fit out for this site is currently underway, with factory services and clean rooms being installed. All equipment orders have been placed with a rolling program of supplier acceptance tests (delivery sign-off at the suppliers' premises) underway. The first set of equipment are 'on the water' with the next step being installation and factory acceptance tests (sign-off at Stonehouse).

The company's current Tewkesbury site will continue to manufacture IHT alongside Stonehouse, with the primary objective at this site to work with new customers on product development to the point where volume

manufacture is needed. Tewkesbury will also continue to be the Group head office.

In tandem with this Stonehouse site acquisition, Trackwise has bolstered its management team through the appointment an experienced chief operating officer, Steve Hudson, who is now overseeing the installation as well as taking responsibility for the existing operations of the whole company. Steve has over 20 years' experience in the automotive and aerospace industry, including operational, quality and programme leadership roles at Bentley Motors and Rolls Royce Aerospace. Trackwise expects this new site to be fully operational in FY22 in anticipation of increased commercial activity.

CONTINUED ACTIVITY ACROSS OTHER MARKETS

While electric vehicles remain the current focus for Trackwise, there is also a healthy level of interest in other key areas. In May 2021, Trackwise announced a seven-year supply agreement with Stockholm-based manufacturer Cathprint AB, which has developed an innovative means of catheter production supporting a semi-automatic operation process for attaching wires, electrodes and contacts. This method serves as an alternative to the small-scale manual assembly techniques typically used today, and considerably reduces manpower and costs in manufacturing. The estimated global market for this industry is expected to grow at a CAGR of 8% from 2018-2025, reaching circa $20 billion by 2025, and the company is currently working with seven active medical catheter manufacturers.

Additionally, Aerospace remains a key area of focus for Trackwise, with the company having previously announced manufacturing agreements with GKN Aerospace for the industrialisation of the GKN Aerospace Type 8 Ice Protection System. Aerospace qualification is a lengthy process, but the size of the potential end markets in this industry means the future revenue potential for IHT in this field is significant.

AN EXCITING OPPORTUNITY AHEAD

Trackwise's operations will soon be geared to meet the expected material increase in demand for its proprietary technology next year. With a disruptive new technology; world-class production facilities and a growing demand across the company's target markets, the future for Trackwise is as bright.

Source: Refinitiv • Created with Datawrapper