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# Smithson Investment Trust



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### % Total Return

12 months ending October	2020	2019	Since inception to 31.10.20
Smithson Investment Trust	+24.0	+13.3	+45.9
AIC Global Smaller Companies Sector	+21.7	+4.0	+26.2

Source: Financial Express Analytics. Inception 19.10.18.

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# Earnings upgrade strategy produces tasty results

Proof that buying stocks following strong earnings upgrades can be a winner

**T**here is a growing trend for companies to report better than expected earnings and this is something that investors should follow. Earnings growth is one of the strongest catalysts for share price growth, so it pays to watch the companies doing well operationally and financially.

Beating estimates in the current environment could be down to several reasons including

## Earnings upgrade stocks from our July article

	Share price change since our article (%)
Trackwise Designs	256.0
Gear4Music	89.6
Luceco	84.6
Asa International	60.0
Smiths News (Connect)	49.0
888	44.1
Sigma Capital	43.3
Robinson	35.0
Next Fifteen Communications	30.3
Boku	27.5
Polar Capital	24.6
Etalon	20.5
NCC	20.4
Caretech	16.8
Centralnic	2.7
Pan African Resources	-0.5
Filtronic	-4.6
Hummingbird	-6.5
Anglo Asian Mining	-7.3
RM	-25.7
AVERAGE	38.0
FTSE All Share	5.0

Source: SharePad 14/7 to 20/11 close 2020

management being too cautious following the first lockdown and underestimating the potential for earnings to recover.

Analysts have been slow to upgrade their forecasts, perhaps also due to being too cautious, and therefore the market consensus has been too low for many stocks.

In July, we wrote an [article](#) about how stocks with the largest upward earnings revisions often go on to significantly beat the average market return over a three-month period.

In that article we published a list of stocks that had seen the biggest earnings upgrades by analysts

over the previous month. From that list, 15 of the 20 stocks subsequently beat the market's 5% gain as measured by the FTSE All-Share. Many of the stocks outperformed by a significant margin.

**Trackwise Designs (TWD:AIM)** increased by 256% between 14 July and 20 November.

The company had already seen upgrades following 2019 results which helped put it on our original list of stocks with earnings momentum. It then won an important contract in September with an electric vehicle manufacturer, which triggered further earnings upgrades and put the stock on the radar of more investors.

Buying stocks with the biggest earnings upgrades isn't a guaranteed winning strategy. For example, education specialist **RM (RM.)** has lost 25.7% since our July article. However, the average return from the 20 stocks was 38% in the period, showing how diversification can benefit this strategy.

While there are recent examples of companies giving more optimistic commentary on their outlook, in general we would expect ongoing caution from most management teams while lockdown restrictions are still in place.

Such caution could easily change upon the approval of a Covid-19 vaccine, but for now we think there is the potential for more companies to beat expectations with trading. The stocks with the biggest upgrades over the past month feature in the accompanying table if you want to consider the earnings momentum investment strategy.

## Stocks with biggest earnings upgrades in the past month

Games Workshop
Colefax
SDX Energy
Luceco
Kainos
Symphony Environmental Technologies
Alfa Financial Software
MJ Hudson
Synthomer
Walker Greenbank

Source: Stockopedia. Ranked by highest upgrades for FY2

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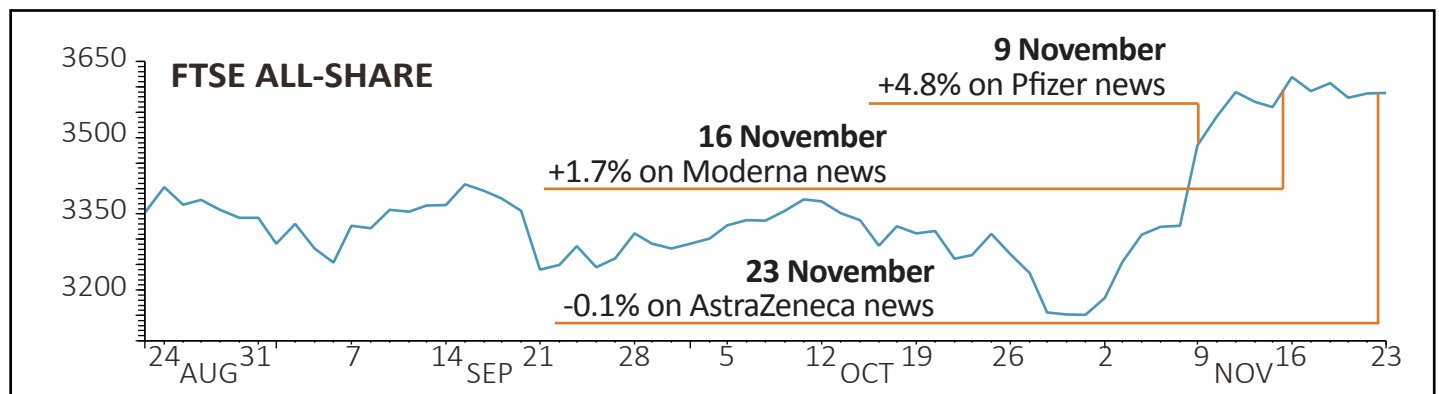
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# Mute reaction to AstraZeneca vaccine is no reason to lose optimism

Vaccine developments are still providing considerable support to equities even if we haven't seen a repeat of the Pfizer-inspired one-day mega rally



**P**ositive vaccine news flow for the third successive Monday appears to be eliciting increasingly weaker share price reactions.

For example, despite good news on 23 November from **AstraZeneca (AZN)** and Oxford University that vaccine candidate AD1222 was 70% effective in preventing Covid-19, markets barely moved that day.

This vaccine is thought to be cheaper and easier to distribute than competing vaccines, but AstraZeneca's shares fell 3% on the day of the announcement as investors clearly expected more from the trial result.

The same pattern was seen last week after US firm Moderna reported that its vaccine was 95.5% effective at preventing Covid-19. Stock markets initially gained 2% to 3% before easing back, compared to the near-5% gain for the FTSE All-Share upon the Pfizer news.

The day after the AstraZeneca news proved to be better for markets, led by investors bidding up stocks in travel firms on hopes of earnings recovery, oil stocks rising on a stronger oil price, and Donald Trump accepting the US presidency transition to Joe Biden must begin, thus implying a smoother than expected handover.

There was a continuation of recent trends

whereby investors sold down higher quality companies which have done well this year, in favour of buying the ones that have been bombed-out.

Pubs and leisure stocks got a shot in the arm after Prime Minister Boris Johnson said England would return to localised restrictions once the current lockdown ends on 2 December.

While pubs in tier three will only be allowed to provide a takeaway service those in the second tier which serve food will be allowed to fully reopen. Non-essential shops and gyms will reopen as will grass roots sports.

The downside is that leisure companies may not benefit too much if large parts of the country are put in tier three – we'll find out on 26 November.

It wasn't just stock markets which have received a boost in recent weeks from the welcome arrival of a vaccine. The riskier end of the bond market has also seen a significant uptick in investor interest.

Cruise ship company **Carnival (CCC)** was in demand, increasing the size of its unsecured private bond offering by an additional \$650 million to an aggregate \$1.95 billion.

Global cinema group **Cineworld (CINE)** secured an additional \$450 million of debt but had to sweeten the deal by issuing warrants equivalent to around 10% of the company's share capital.



# Sunak pledges increased spending on jobs, housing and infrastructure

Key points for investors on the Chancellor's spending review

**A**fter postponing the Budget earlier this year, and with public sector borrowing at a peacetime high, Chancellor Rishi Sunak's spending review was keenly awaited.

While the health emergency is not yet over, despite over £280 billion of spending on health and employment measures, 'the economic emergency has just begun' according to the Chancellor.

UK output is expected to shrink by 11% this year, the most in history, with next year forecast to see a rebound of 5.5%, and by 2025 the economy will be 3% smaller than estimated pre-pandemic.

Sunak promised another £18 billion to help the NHS fight the virus, along with £30 billion in extended furlough payments, restart programmes, local council grants and rail subsidies, to help firms in hospitality, staffing and travel.



Also, as part of a 'once-in-a-generation' £100 billion infrastructure plan, there is a big increase in spending on public services, building new schools and hospitals, hiring more nurses, recruiting more police officers and building more prisons, which will benefit the outsourcing sector.

Spending on roads and other transport schemes to 'level up' the regions is good news for infrastructure firms, while on top of Help to Buy, which is estimated to be worth £12 billion, there is a new £7 billion national housebuilding scheme and planning regulations will be eased, all of which will be music to the ears of the housebuilders.

## Germany's blue-chip index gets big overhaul after Wirecard scandal

One of the most important indices in Europe is to include more constituents but with tighter qualification rules

GERMANY'S LEADING blue-chip index, the Dax 30, is going to see its first major overhaul since being created over 30 years ago.

The Dax 30 index represents the 30 largest German listed companies trading on the Frankfurt Stock Exchange. It is one of the most important indices for anyone looking at European stocks.

The need for change became apparent following the collapse

of payments group Wirecard after allegations of accounting fraud. Last week the company's creditors told a court that they are owed at least €12.5 billion.

Wirecard had a chequered history of filing its accounts on time so from March next year companies in the Dax index will need to produce timely audited annual reports and quarterly statements. Firms infringing these requirements will automatically face

exclusion after a 30-day warning.

From September 2021 the index will be expanded to 40 names, increasing diversification, and reducing the weightings of all constituents, making the index less concentrated.

Lastly, the selection criteria for future inclusion in the index will be beefed up so that from next month qualifying companies must demonstrate two successive financial years of positive EBITDA (earnings before interest, tax, depreciation and amortisation).

The company that replaced Wirecard in the Dax was delivery company Delivery Hero, which hasn't generated any profits over the last few years.

# Video game platform Roblox could see blockbuster market debut

The company spans gaming and cloud software and is experiencing rapid growth in daily active users

**V**ideo game platform company Roblox is to join the US stock market in a hotly anticipated listing. Its games are hugely popular with younger children and the business could be worth as much as \$8 billion, including a potential \$1 billion fundraise.

The excitement stems from Roblox's unique business model where developers use its technology cloud-based platform to develop casual games in virtual 3-D worlds.

Over half of the company's 36 million daily users are pre-teens with only 12% of its client base over the age of 25.

The company earns revenue from the platform by selling a virtual currency called Robux that can be exchanged for virtual items to unlock features and experiences.

Discounts can be claimed by users purchasing Roblox Premium subscriptions which cost between



\$5 and \$20 per month. Revenues are recognised over the average lifetime of users which is estimated to be 23 months.

This means that sales activity is measured by 'bookings' which are revenues not yet recognised, which grew 171% to \$1.2 billion in the first nine months of 2020.

Over that period, Roblox generated \$345 million operating cash flow from \$589 million revenues according to the stock market flotation prospectus, and incurred a \$203 million net loss. The first day of dealings has yet to be confirmed.

## Controversial fast-track funding rule scrapped

Retail investors have been at a disadvantage for much of 2020 on the ability to back discounted fundraises

AN EMERGENCY measure introduced at the onset of the pandemic to allow companies to exclude existing shareholders from major fundraisings is to end on 30 November.

Back in March, as the coronavirus brought economic activity to a halt, the Pre-Emption Group informed

UK-listed companies they could issue up to 20% of their share capital to raise fresh funds without giving existing shareholders first refusal, thus bypassing their pre-exemption rights.

Previously, the maximum fundraising a company could conduct without granting pre-

exemption rights was 5% of their share capital and an extra 5% if the funding was for an acquisition or investment.

While this additional flexibility was welcomed by cash-strapped companies, many retail investors opposed the new rules as they were excluded from taking part in heavily discounted, highly dilutive share issues.

Though considerable economic uncertainty remains, PEG argues companies have had eight months to assess their situation and respond accordingly.

# Worst of dividend cuts 'now over' says Janus Henderson

But the asset manager warns not to expect payouts in general to grow until after the anniversary of lockdown

**T**he worst of the dividend cuts are now behind us, but don't expect payouts to grow in general until after the anniversary of lockdown at the end of March next year.

That's according to asset manager Janus Henderson, whose latest Global Dividend Index showed that dividends from UK-listed firms fell 41.6% in the last quarter to their lowest total in a decade.

The UK stock market has suffered deeper dividend cuts than most other parts of the world, and a big chunk of the fall in payouts has been attributed to the banks being barred from distributing cash, as well as both oil majors **BP (BP.)** and **Royal Dutch Shell (RDSB)** slashing their payouts and mining giant **Glencore (GLEN)** cancelling its dividend.

But on the flip side Janus Henderson sees other companies restarting payouts again, such



BP and Royal Dutch Shell have slashed their payouts

as plumber **Ferguson (FERG)** and alcoholic drinks maker **Diageo (DGE)**, and believes Q3 this year marked the low point for shareholder payouts.

It expects the dividend outlook to improve from April 2021 onwards, but warns there is a clear divergence in different stock markets – the UK, Europe and Australia are the worst affected, Japan somewhere in the middle, while emerging markets (thanks in large part to China) and North America are proving most resilient.

The US is set to hold up well as shareholder yields are typically split 50/50 between dividends and share buybacks, with the latter being cut to ensure the former is relatively protected.

## Blue Prism eyes US listing to help narrow valuation gap

UK robotic process automation firm is determined to catch up with rivals UiPath and Automation Anywhere

UK ROBOTIC PROCESS automation technology developer **Blue Prism (PRSM:AIM)** is mulling a US stock market listing for its shares in a drive to narrow the yawning valuation gap with privately-owned US peers.

The Warrington-based company admitted earlier this month that it had begun exploring the possibility of a US listing, although no decision has so far been made.

'A prospective US secondary listing will likely catalyse the closure of the existing discount to the BVP Nasdaq Emerging Cloud index,' says Investec analyst Roger Phillips. 'This index sits on 14.6 times average next 12 months enterprise value to sales (12.7-times median) versus Blue Prism on 10.4 times FY21 estimates.'

In particular, having a listing in the US alongside the UK-quoted shares

would potentially help close the huge valuation gap that has opened between Blue Prism and its key peers UiPath and Automation Anywhere.

At £14.45 per share, Blue Prism commands a £1.36 billion market value. That implies 13.4 times last year's £101 million revenue, or 9.5 times the forecast £143 million for the year ended 31 October 2020.

According to Wikibon data, privately-owned UiPath and Automation Anywhere have been valued at between of 20 and 27 times 2019 revenues of \$350 million and \$250 million respectively.

There is speculation that UiPath could soon float on a stock market, commanding a \$15 billion valuation.

# UK 'green revolution' could be great for investors



However, cynics see the plan as currying favour with the new US administration

**T**he UK Government's 10-point plan for a 'green industrial revolution' has major implications for investors as it creates a tailwind (and headwind) for a lot of sectors.

It is designed to accelerate the UK's path to net zero carbon emissions, repair the damage to the economy from coronavirus, and support green jobs.

The plan covers the transition to new forms of energy, a shift to zero emission transport, both private and public, carbon capture, green building and green finance.

It promises to 'mobilise' £12 billion of Government investment, and potentially more than three times that amount from the private sector, to create and support up to 250,000 green jobs like engineers, fitters, construction workers 'and grid system installers everywhere'.

The end goal is to reduce UK emissions by 180 million tonnes of CO2 equivalent between 2023 and 2032, and ultimately to create a net zero carbon economy by 2050.

Two of the most striking initiatives are the proposal to quadruple existing offshore wind capacity and the banning of new internal combustion engine cars a decade earlier than initially planned.

Thanks to public subsidies and the proliferation of new sites, the cost of offshore wind has fallen by two thirds in the last five years. However, to increase output to 40GW considerable investment will be needed not just in turbines and wind farms but also in network infrastructure and smart energy systems.

The move to ban the sale of new petrol and diesel cars by 2030 will also have significant ramifications for fossil fuel firms, infrastructure

providers, housebuilders and ultimately consumers. For example, creating a nationwide charging network is imperative, with vehicles capable of being charged at home, at work and on the road.



It will put pressure on car retailers to invest sooner rather than later in servicing capability for electric vehicles, a route that accessories provider **Halfords (HFD)** is already taking via the recruitment of more specialist staff. By April 2021, it says each of Halfords' garages will have at least one electric car technician, with electric bike and scooter servicers in every store.

Specialist lenders should benefit from the opportunity to extend credit to businesses involved in this 'green revolution', while alternative fund managers can expect a bright future as asset allocators funnel ever greater amounts of money into green infrastructure and ESG funds.

While the plan sounds impressive, more cynical observers believe the Government's sudden interest in a green agenda is political expediency and an attempt to cosy up to a greener US administration. As UBS Global Wealth chief economist Paul Donovan put it, 'this is the "hug a tree to hug Biden" strategy which other leaders will surely follow.'



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Investments

# Buy this trust to access cut-price quality names

BlackRock Throgmorton is just the ticket for those tempted by recent double-digit share price declines in popular names

**M**any high-quality companies have recently been shunned by investors in favour of beaten-down value stocks amid coronavirus vaccine hopes. That presents an opportunity to be contrarian and we've spotted a way to take advantage of such price weakness.

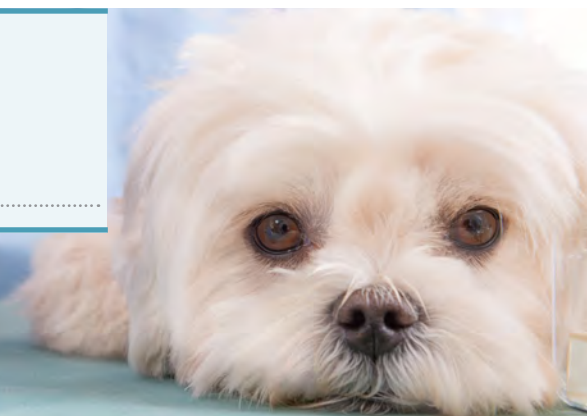
Investors have started to realise they don't need to pay high multiples to find growth. As such, many stocks on higher ratings like the lockdown winners have eased back as investors rotate towards stocks formerly perceived as lockdown losers but now with greater potential for an earnings recovery.

However, the high-quality companies commanded premium ratings for good reason, and history shows rallies in value stocks are not long-lived, so now could be the time to add exposure to quality stocks while ratings are looking less rich.

A great way to access these names is through investment trust **BlackRock Throgmorton (THRG)**, which invests primarily in UK small and mid-caps.

Its top holdings include tech stock **Gamma Communications (GAMA:AIM)** and miniature wargame maker **Games Workshop (GAW)**. The latter has fallen by 17% since early November and Gamma is down

**BLACKROCK  
THROGMORTON**  
BUY  
(THRG) 702.79p



more than 6%, yet both have delivered consistent earnings upgrades this year and have good growth prospects ahead.

The growth outlook is also good for portfolio company **Dechra Pharmaceuticals (DPH)**, down 10% in a matter of weeks.

Other holdings include defence technology firm **Avon Rubber (AVON)** and retailer **Watches of Switzerland (WOSG)**.

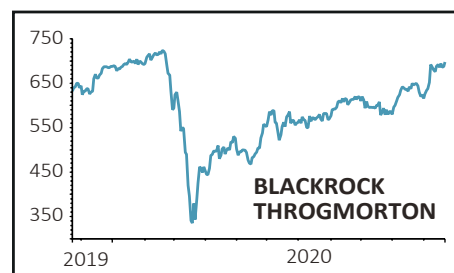
The trust has 37% of the portfolio in industrials and financial services, two sectors firmly in the value bracket, and so still has the ability to capture a good amount of the upside if the rotation into value does end up continuing for longer than expected.

In terms of performance, Throgmorton has had bumpy years with performance in share price terms typically having fallen one year and gained the next in the past decade, but for example the 6.5% fall in 2018 was followed

up with a 60% gain in 2019. The trust has achieved 18.49% annualised returns over five years.

On the face of it, the trust's ongoing charge of 0.59% a year looks very reasonable, but it's important to know the trust also charges an annual performance fee if it outperforms its Numis Smaller Companies plus AIM benchmark by 15%. In this case, the ongoing charges figure rises to 1.75% a year.

It's also worth noting that the trust can profit if certain share prices fall, through short selling. This increases the risk of the trust and so any investor must be comfortable with this point before buying the shares.





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<sup>1</sup>As rated by Willis Towers Watson. <sup>2</sup>Willis Towers Watson directly manages \$148.6 billion for institutional investors, as at 30 June 2020, and advises them on \$2.6 trillion, as at 30 June 2017. <sup>3</sup>MSCI All Country World Index.

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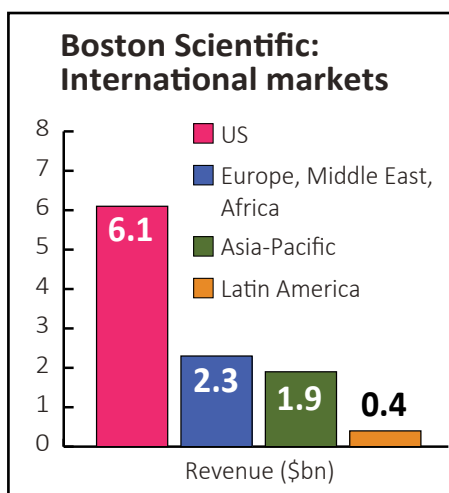
# Boston Scientific has big potential to get back on top in 2021

The market backdrop is moving in the medtech company's favour

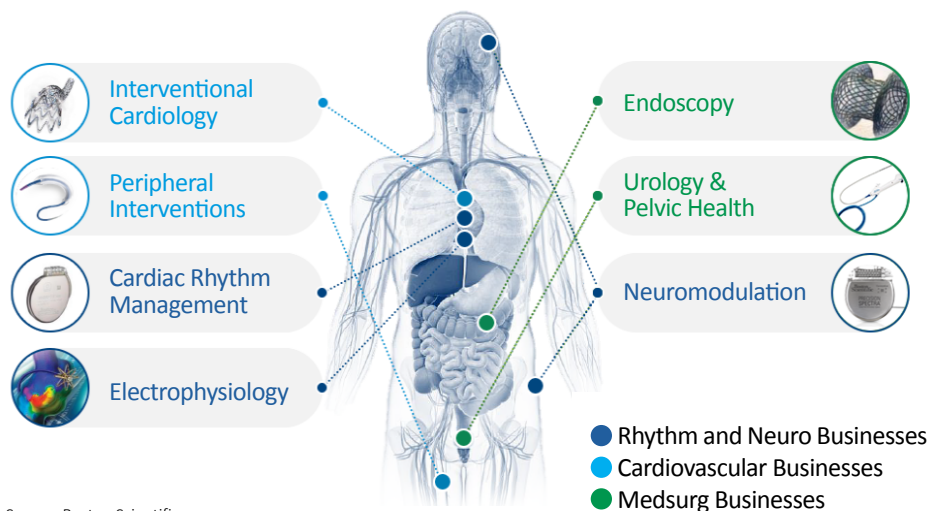
**M**edical science has come on leaps and bounds over the decades, yet heart disease and related conditions continue to kill thousands every year. More than a quarter of all deaths in Britain are from heart and circulatory diseases, according to data from the British Heart Foundation, or nearly 170,000 deaths each year.

Heart disease killed more people in the US in 2018 than anything else, and the cost of living with these conditions is soaring. Statista data estimates that the cost of coronary heart disease, for example, will rise from \$190 billion in 2015 to \$365 billion by 2030.

Against this backcloth, there are a lot of reasons why Boston Scientific is an enticing stock for investors. There's the company's line of specialist tools for



## Overview of Boston Scientific's expertise



Source: Boston Scientific

healthcare workers, a portfolio of implantable medical devices like pacemakers and stents, and a catalogue of simple-yet-critical healthcare staples like catheters and embolic protection devices, which reduce complications and cut down blockages during heart procedures.

The company has also identified new high-growth markets, such as prostate health and therapeutic oncology, and Parkinson's to target for future growth, and it is fast gaining traction in many emerging markets, such as China, India, and Malaysia, all far earlier in the medtech adoption curve.

Founded on the philosophy of improving patient outcomes,

## BOSTON SCIENTIFIC

**BUY**

(BSX) \$33.33

Market cap: \$47.7 billion

Boston Scientific has been developing innovative devices for years, helping to reduce the need for heavy trauma procedures like open heart surgery.

### WHY THE STOCK FLATLINED

The stock has largely flatlined since its recovery from the March pandemic sell-off as thousands of elective procedures were put on ice as healthcare resources were diverted to coronavirus-fighting.

According to one analyst, the NHS waiting list for non-emergency procedures currently stands at 7.2 million after the swathe of postponements.

This situation in many parts of the world hurt sales for Boston Scientific, particularly as one-off consumables demand dried up. But elective procedures do not mean optional; these might be non-urgent, but they remain necessary for patients, especially in areas like heart disease and cancer.

### REASONS TO BE OPTIMISTIC

With the resumption of non-emergency medical procedures as lockdown eases, medical technology is one of the sectors expected to recover fastest, with revenues ramping up quickly from pent-up demand – faster even than in travel and construction.

Boston Scientific will be in a box-seat to rally as the long waiting lists for these necessary procedures start to be addressed.

While Boston Scientific will post a decline in revenue and earnings this year, the company could see a return to strong earnings growth between 2021

### BUYING OVERSEAS-LISTED SHARES

**Boston Scientific's shares trade on the New York Stock Exchange and should be available to UK investors via most investment platforms.**

**Anyone buying the shares through an ISA or dealing account will need to complete a W-8BEN form which is**

**standard practice for investing in US stocks. There might also be foreign exchange charges to consider on your investment platform.**



and 2023, as the company's past investments in research and development and new product design start paying off.

### HIGHER PROFIT MARGINS

The company has already made great strides in improving profitability, pushing net margins from 16.9% in 2015 to 21% in 2019. While we expect a hit on margins in 2020, the margins will likely rebound to over 20% levels next year, according to Refinitiv consensus data, and go close to 22% in 2022.

Acquisitions are also likely to play their part in bolstering growth down the line too, which could inflate forecasts further. Boston Scientific was the company that bought out the UK's minimally invasive

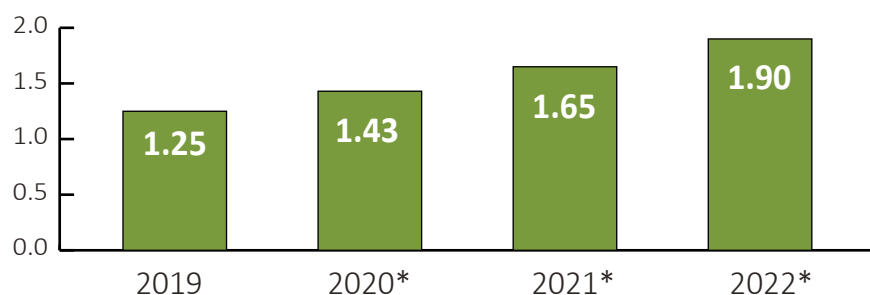
device manufacturer BTG for \$4.2 billion in 2019.

Yes, the pent-up demand we have talked about for elective procedures could take longer to unwind than analysts think, making recovery through 2021 slower than currently expected.

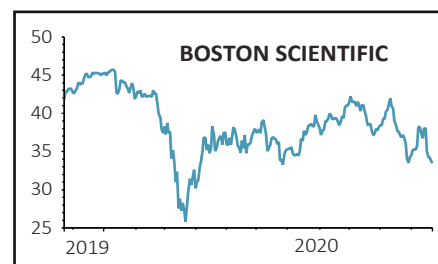
There are also considerable borrowings to consider – around \$10 billion worth. Yet that represents a debt-to-equity ratio of 0.3, which should be comfortably managed given free cash flow of nearly \$1 billion is anticipated even in this most testing of years. Next year analysts see close on \$2 billion of free cash flow.

The stock trades on a price to earnings (PE) multiple of 29.2, falling to 23.3 in 2022. Or put it another way, Boston Scientific is now trading at 23.8 times 2021 free cash flow. Nudge that multiple to 25 on 2022 free cash flow of around \$2.5 billion and it implies at least 30% upside over the coming 12 months or so.

**Boston Scientific's emerging markets growth ambitions (revenue, \$bn)**



Source: Boston Scientific \* = forecast



## SOFTCAT

(SCT) £11.53

**Gain to date: 20.2%**

**Original entry point:**

**Buy at 959.5p, 1 August 2019**

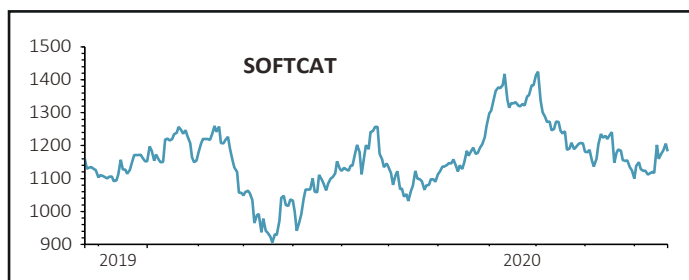
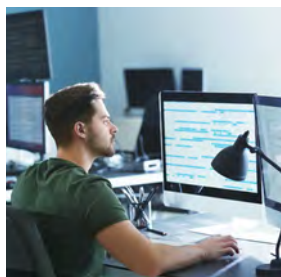
BEING RATED AS a Covid-19 winner did wonders for **Softcat's (SCT)** share price through most of 2020, breaking through £14 in August.

Certainly mass work-from-home would have done the software reseller no harm at all, but the previous wind in the stock's sails has died down as the easing of pandemic lockdown restrictions nears, possibly prompting investors to take some profits, depressing the share price and bringing the 2021 price to earnings multiple back to 30.

Even so, a 20% paper profit remains impressive in the 15 months since our original *Great Idea* pitch.

Judging by the company's latest update there is little to trouble expectations of more gains to come. Softcat said earlier this month that first-quarter revenue, gross profit and operating profit had all tracked higher and that demand had continued to emerge from both public organisations and the commercial enterprise sectors.

While the quarterly update was typically figure-free and brief, the company also said that its cash generation for the three months through October had remained in line with normal trends.



### SHARES SAYS: ↗

This resilience is encouraging, and investors should take advantage of the recent share price pullback to buy more stock. Softcat is still a buy for the longer-term.

## SOMERO ENTERPRISES

(SOM:AIM) 276.86p

**Gain to date: 6.5%**

**Original entry point:**

**Buy at 260p, 24 September 2020**

SHARES IN CONSTRUCTION equipment specialist **Somero Enterprises (SOM:AIM)** have burst to life after a very strong trading update.



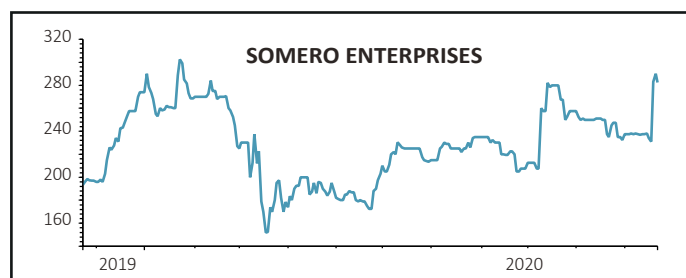
Business has been very good in recent months, prompting the small cap to say it would exceed its previous reinstated expectations for the current financial year, ending 31 December.

The old guidance was \$75 million revenue, \$19 million adjusted EBITDA and \$20 million net cash. The new guidance is \$80 million revenue, \$21 million adjusted EBITDA and \$26 million net cash.

Somero credited a strong US market, good contributions from new products and higher revenues from its SkyScreed family of products following an easing of job-site restrictions. Cash generation has been good thanks to effective working capital management and customers paying on time.

Broker FinnCap raised its adjusted pre-tax profit forecast for 2020 by 11% to \$19.6 million and implied Somero could be more generous with its dividends thanks to higher cash, upgrading its total dividend estimate for the year to 21.8 cents.

It also raised its share price target from 255p to 285p based on a fair value price to earnings ratio of 14 for the 2020 financial year.



### SHARES SAYS: ↗

It's great to see an improvement in Somero's trading and the latest update confirms our original premise that this is a solid business.



## ODYSSEAN INVESTMENT TRUST

(OIT) 114.5p

**Gain to date: 17.4%**

**Original entry point:**

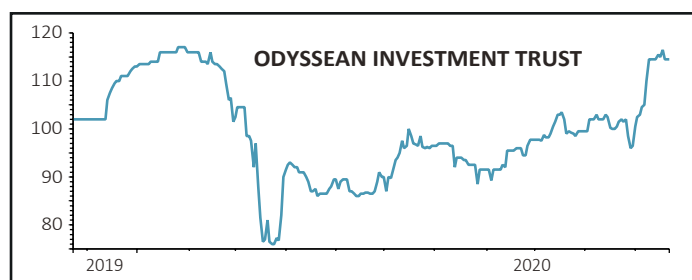
**Buy at 97.5p, 10 September 2020**

OUR 'BUY' CALL on **Odyssean Investment Trust (OIT)** has generated a swift 17.4% return, with the discount to net asset value narrowing from 9.4% to 4.7%, on rising awareness of what makes this concentrated portfolio of smaller companies a bit special.

In our original article, we highlighted how Odyssean's managers Stuart Widdowson and Ed Wielechowski have proven expertise in picking takeover candidates. That skillset has been demonstrated once again by a recent offer for specialty chemicals company **Elementis (ELM)**, the trust's second largest holding, by Minerals Technologies, marking the fourth bid approach for one of Odyssean's companies in the last year.

Rejected by Elementis, Widdowson views the 107p all-cash offer as a 'highly opportunistic approach' which substantially undervalues the business and its prospects. Indeed, he regards Elementis as 'a "double upside stock" – well-positioned for the end market recovery as the world normalises from Covid, as well as having "self-help" initiatives which the management can execute to improve underlying operational efficiency and returns.'

We have faith that if prized portfolio assets are ultimately lost to takeovers then the managers can replenish the fund with new ideas that have the potential to deliver outsized returns.



**SHARES SAYS: ↗**

**Keep buying Odyssean Investment Trust.**

## AG BARR

(BAG) 533p

**Gain to date: 6.7%**

**Original entry point:**

**Buy at 499.5p, 7 May 2020**

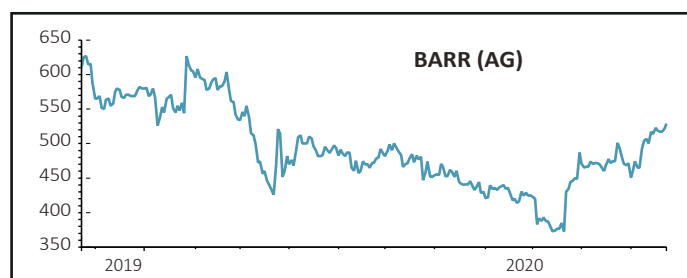
SHARES IN DRINKS company **AG Barr (BAG)** are now trading ahead of our May entry point thanks to investors starting to look beyond fast-growth tech stocks for investment opportunities.

It reassured the market on 18 November by saying trading remained in line with expectations and it also received £7.6 million as compensation for the termination of its distribution agreement with Rockstar. The latter business was acquired earlier this year by PepsiCo.

Investors are now looking more closely at how businesses might recover in 2021, assuming the pandemic is brought under control and vaccines start to be distributed. Rockstar accounted for 8% of AG Barr's sales volumes so it does have a hole to fill. However, the broader market outlook is looking more favourable for the group and it's important to take a long-term view of a company when investing.

Broker Shore Capital says: 'Barr is a class act to us, with experienced and highly capable management, a strong stable of brands, excellent manufacturing and distribution assets and a robust financial constitution.'

'Whilst there have been and remain hurdles to counter, we believe that Barr is in excellent operational shape and very focused on the tasks at hand. As such, we believe this high-quality company is well set for the foreseeable future.'



**SHARES SAYS: ↗**

**It's good to see the share price pick up. This is one to hold for the long-term.**

# AIMING FOR ZERO: EUROPE RAISES ITS CLEAN ENERGY GAME

ADVERTORIAL



**PICTET**  
Asset Management

*Europe's ambitious new climate goal will help it become carbon neutral and spur investments into the clean energy industry.*

**S**hifting into a higher gear. This is precisely what the European Union has just done as it steers towards a more sustainable economy. Its new climate blueprint proposes cutting greenhouse gas emissions by 55 per cent compared with 1990 levels by the end of the decade. Europe's ambitious green spending commitments and stricter regulations not only give an environmental template for other countries to follow, they also offer the prospect of stronger economic growth and open up new investment opportunities.

*"The only way to meet the world's growing demand for energy while decreasing its carbon emissions is to adopt more energy-efficient technologies and switch to low or zero carbon energy alternatives. Combined with accelerating advances in enabling technologies, this energy transition will create investment opportunities for decades to come."*

*Christian Roessing, Senior Investment Manager, Pictet Clean-Energy fund*

The Biden victory at the US election will accelerate further the energy transition. Environmental and clean energy technology is a key pillar of Biden's USD2 trillion infrastructure investment programme. Biden aims to achieve a net zero carbon economy by 2050, committing USD2 trillion in new investment over four years. The energy transition in the world's largest economy seems unstoppable. This should strengthen the potential for attractive future growth in companies offering goods and services that would drive a transition to a zero carbon economy.

## **Pictet-Clean Energy fund: investing in the energy transition**

Europe's 2050 climate target is set to disrupt and transform a number of industries, each representing rich and diverse investment opportunities:

- **E-mobility:** Some 80 per cent of today's transport energy needs to be converted to electricity to meet the emissions target. BNEF expects 57 per cent of all passenger vehicle sales will be electric globally by 2040, compared with only 3 per cent in 2019. This will likely boost investments into not only EV manufacturers but, more significantly, supporting technologies such as batteries and power semiconductors, as well as smarter grid networks and charging infrastructure.
- **Renewables:** Under the European plan, the share of renewables in power generation must rise to 85 per cent by 2050 from today's 20 per cent, with the bulk of that covered by wind and solar. The way we generate power is transforming as an increasing number of European power utilities ramp up their production of renewable energy with aggressive expansion plans.
- **Green buildings:** All new European buildings must be "nearly net zero energy" starting 2021. We also expect a significant increase in demand for "retrofitting" existing buildings.

Pictet-Clean Energy is a compartment of the Luxembourg SICAV Pictet. The latest version of the fund's prospectus, KIID (Key Investor Information Document), regulations, annual and semi-annual reports are available free of charge on [assetmanagement.pictet](https://assetmanagement.pictet) or at the fund's management company, Pictet Asset Management (Europe) S.A., 15, avenue J. F. Kennedy, L-1855 Luxembourg. Before making any investment decision, these documents must be read and potential investors are recommended to ascertain if this investment is suitable for them in light of their financial knowledge and experience, investment goals and financial situation, or to obtain specific advice from an industry professional. Any investment incurs risks, including the risk of capital loss. All risk factors are detailed in the prospectus.

# Rolls-Royce could come roaring back once activity resumes

Capital-light and easily scalable, the FTSE 100 aero-engineer is ripe for recovery

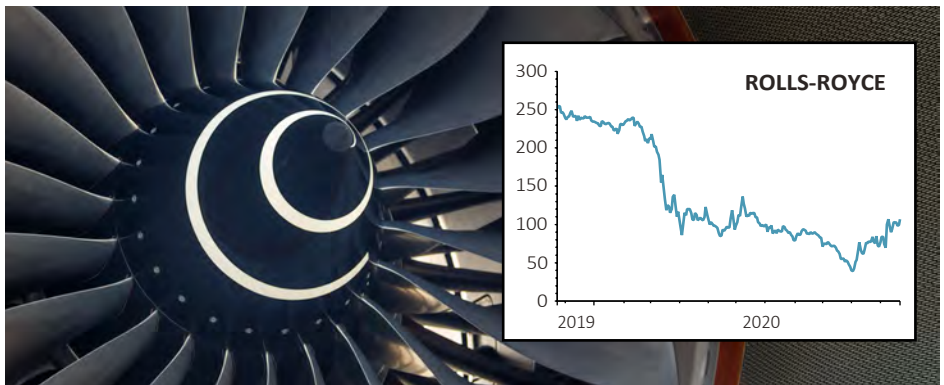
**S**hares in **Rolls-Royce (RR.)** have been on a hyper-volatile rollercoaster run during the past couple of months. Investors seldom get to see the share price of a FTSE 100 company almost double in value in the space of a few days, as happened with Rolls-Royce in early October, and jump another 50% at the beginning of this month.

With multiple Covid-19 vaccines showing promising trial data, there at last seems to be a path out of this horrible pandemic, albeit a long one still fraught with risks.

Analysts are bit by bit rethinking their forecasts for UK aero-engineer Rolls-Royce as 2021 brings the promise of people being able to move far more freely around the globe as restrictions are gradually removed.

'We believe air traffic will recover quickly, likely in the second half of 2021,' said Jefferies' analysts Sandy Morris and Hamish Dalgarno in a note to clients earlier this month.

'Chinese domestic airline traffic fully recovered in seven months. In Europe, Japan and the USA, the rally in June and July was snuffed out by Covid, but the portent is recovery could be swift. After such prolonged and



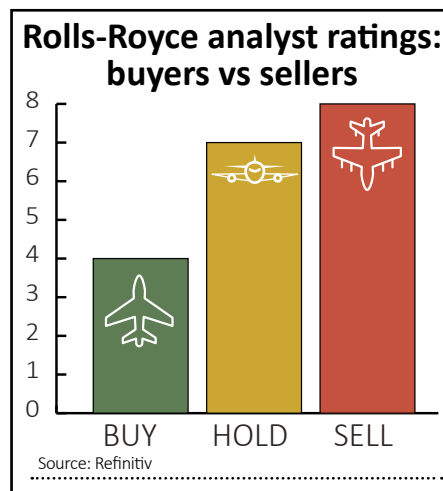
severe disruption, we believe international and business travel would not lag far behind.'

Jefferies is among the small number of analysts with a buy rating on the stock ahead of what they think could be another run up in the share price over the coming months, perhaps up to 140p, nearly a third up from the 107p trading level at the time of writing.

But positive views on the stock within the analyst

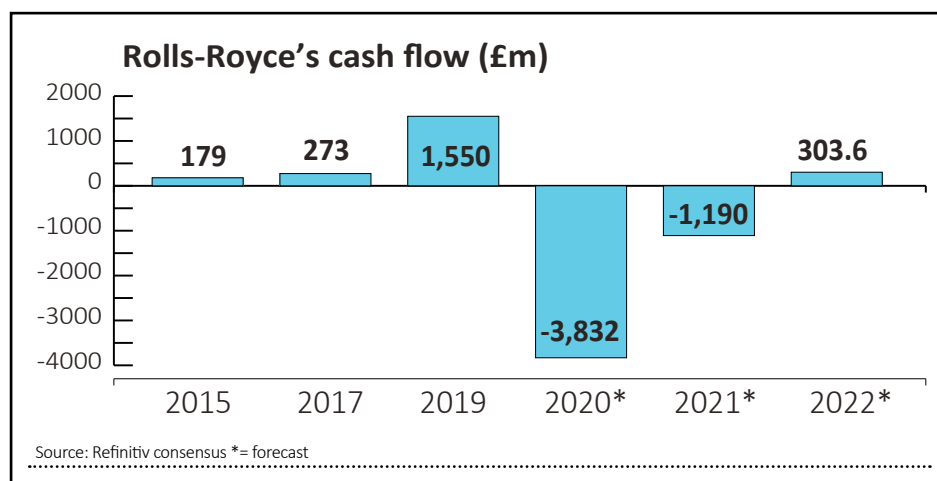
community are still in the minority, based on Refinitiv data, emphasising the considerable risks still facing Rolls-Royce.

We back the optimists and believe there is considerable scope for share price gains through 2021. But perhaps more importantly, on a medium-term three to five-year investment period, *Shares* thinks that the stock could nearly double again, based on a cash flow yield of 7% and free cash flow of £1 billion. That would imply a company value beyond £14 billion compared to the current £8.9 billion market cap.



## WHY WE ARE OPTIMISTIC

In October shareholders overwhelmingly backed a £2 billion rights issue, shoring up the company's balance sheet. The rights issue entitled shareholders to buy 10 new shares at 32p per share for every three they owned, quadrupling the number



of shares on the market, from around 1.9 billion to 8.4 billion, on 13 November.

The obvious downside of this situation is that recovering earnings will get spread across many more shares than before, diluting the impact for investors. For example, if Rolls-Royce's profits recovered to its pre-pandemic levels, its earnings would be divided among more shares, so earnings per share (EPS) would be lower.

However, Rolls-Royce has also unlocked another £3 billion or so of extra borrowing capacity. About £2 billion of that additional liquidity came from new bonds prior to the rights issue in October, the rest from a two-year bank loan.

With around £5 billion in extra funding available analysts now largely believe that Rolls-Royce has escaped the existential threat that it faced earlier in the year, with access to enough cash to see it through the pandemic.

So as the cash call dust starts to settle, we believe Rolls-Royce's shares are likely to be far less volatile in the coming months than they were through most of 2020. That might be bad news for high-risk day traders,

but it would be great for more traditional investors willing to back a business for the medium to longer-term.

Changing the mindset of ordinary investors is important. Far fewer would be willing to invest in a stock when it is jumping about all over the place, up by double-digit percentage points one day, plunging by amounts just as big the next day, possibly triggering stop-loss safety nets on little more than a change in the market's mood music.

With improved stock stability investors will have the freedom to take a more considered view on the company's prospects over the coming months and years.

That gives the company and

  
**Getting planes back in the sky is paramount for Roll-Royce. But there is no guarantee that people will want to fly in the same numbers right away**

its investors breathing space to concentrate on its core end markets, civil aerospace, power systems, defence and its low-pressure turbines unit ITP Aero, although rumours continue that the latter business could be sold.

## GROWTH & PROFIT

Aero engines, both commercial and defence, make up three quarters of its revenue and Rolls-Royce had grown to become the senior player in an effective global duopoly, nudging ahead of rival General Electric in civil aviation. This area is worth more than half of its total sales.

While this is a highly technical and cutting-edge science-based business, the model is easy to understand. It builds engines, often selling them at cost, and then enjoys substantial profit over the typical 25-year engine lifecycle from servicing and maintenance.

Get more engines on more planes that fly more air miles and you've got a virtuous cycle of bumper cash flow long into the future. That cash should then underpin a growing stream of dividends.

With thousands of planes grounded for part of 2020 and air travel still running at a fraction of previous levels, it's obvious that this part of the business has suffered badly.

Civil aerospace operations plunged £1.8 billion into the red in the first half of 2020, having posted a £2.5 billion profit in 2019's first half.

Getting planes back in the sky is paramount for Roll-Royce. But even if Covid restrictions are lifted completely through 2021, there is no guarantee that people



will want to fly in the same numbers right away.

Business air travel may remain lower for longer as more meetings are done virtually on Microsoft Teams, Zoom or other platforms. This likely means that any sort of normality won't likely return to global air travel until 2022.

But as the table shows, Rolls-Royce's civil aerospace operations may be big for sales, but it is not the company's main driver of profit, as that lies in the power systems and defence units.

The power systems unit, which includes Rolls-Royce's nuclear power solutions, also saw disruption during the first half thanks to the pandemic, wiping out a significant chunk of profit at the interim stage.

At the time, in August, the company talked up the unit's strong positioning and scope to benefit from the 'recovery and from continued demand for mission critical power', which may imply a much improved second half of the year and beyond.

The defence division remained resilient, posting 35% growth in revenue and 33% higher operating profit at the half-year stage.



Rolls-Royce engines power 35 types of commercial aircraft that have clocked up more than 100 million air miles, including the Airbus A330, A340, A350, and A380, plus the Boeing 777 and 787 Dreamliner.



13,000: the number of Rolls-Royce commercial aircraft engines in service around the world.



An estimated 6 billion people will be flying



annually by 2030, according to Rolls-Royce.



Rolls-Royce is developing electric aircraft engines alongside German research partner Siemens.

Source: Rolls-Royce

## TRICKY VALUATION

Near-term price to earnings (PE) multiples are meaningless given the modest profit recovery expected by analysts in 2021. Forecasts from Jefferies of 12.4p EPS for 2022 are based on the old 1.9 billion share count. Adjusting for the flood of new shares, we calculate 2022 EPS at 2.9p, implying a PE of about 37.

This looks expensive but it is arguable that PE is not the right way to value the business given the ongoing uncertainty around future earnings and their pace of recovery.

Cash flow is a better way to

value the business. Rolls-Royce chief executive Warren East is targeting annual free cash flow of at least £750 million in 2022. That implies free cash flow of about 9p per share.

A 107p share price implies a free cash flow yield of 8.4%, or 11.2% on the £1 billion free cash flow that Jefferies estimates for 2023.

To *Shares* this looks like great value even considering the extended timeframe for operating returns and ongoing risks. Free cash flow in 2019 was £1.55 billion.

Rolls-Royce is a valuable franchise and its business model is highly scalable. It now has financial security and a much clearer pathway to recovery, and we believe the stock could come roaring back to life just as soon as normal economic activity resumes.

## Rolls-Royce's breakdown of revenue and profit (£m)

	Revenue 2019	Operating profit 2019
Civil Aerospace	8,107	44
Power Systems	3,545	357
Defence	3,250	415
ITP Aero	936	111
<b>Total*</b>	<b>15,838</b>	<b>927</b>

Source: Rolls-Royce \* = before corporate costs



By Steven Frazer  
News Editor

# DIGITAL CHRISTMAS



## Four stocks to bring joy

By James Crux, Ian Conway,  
Daniel Coatsworth and Tom Sieber

**A** second national lockdown in England and restrictions in Wales and Scotland mean the run-up to Christmas 2020 will be very different to anything retailers and shoppers have experienced before. This year is going to be a digital Christmas and that has implications for numerous companies on the stock market, which we will explore in this article.

People have started ordering goods online far in advance of normal buying habits for two reasons. Firstly, so many shops are currently closed, and people are being told to stay at home, so ordering online is their only way of buying goods.

Secondly, a lot of people are ordering early as they don't want to risk lockdown restrictions being extended and being unable to get to the shops to buy Christmas presents. It's easier to buy online now and avoid the risk of delivery delays.

### Digital Christmas winners: stocks to buy

<b>Next</b>	Best in class retailer with increasing success online
<b>Sainsbury's</b>	Argos could be a big hit for the grocer this festive season
<b>DX</b>	Getting its act together for deliveries
<b>Warehouse REIT</b>	The more people buy online, the greater the demand for warehouse space to facilitate orders

### SALES ON THE MOVE

Boosted by early Christmas shopping, October's ONS retail sales figures were unexpectedly strong with sales rising 1.2% over the month and up a sizeable 5.8% year-on-year.

UK grocers saw strong online food sales as tiered lockdowns were rolled out and many



consumers continued to work from home, while staying in also stoked non-food sales as people ordered household products, toys and electronics to spruce up their homes and keep family members entertained indoors.

Ian Geddes, head of retail at Deloitte, believes 2020 will be the most digital Christmas ever, as many lockdown habits have become engrained with consumers.

He says: 'Most notable is the shift to online shopping, accounting for 28.5% of all sales by value in October as consumers fully embrace the convenience of e-commerce, and another national lockdown keeps non-essential shops closed.'

**"The virtual queue is also gathering. Ensuring that fulfilment, delivery, and "click and collect" resources can keep up with demand will be key to managing the online surge"**

Geddes says many retailers are already 'applying creativity to deliver what is certain to be the most digital Christmas ever; whether it is by value and volume of online purchases or by bringing the in-store Christmas shopping experience online with virtual visits to Santa's grotto, and festive virtual workshops to follow at home.'

And yet, as Christmas food delivery slots fill up and online orders build, Geddes warned that 'the virtual queue is also gathering'. He adds: 'Ensuring that fulfilment, delivery, and "click and collect" resources can keep up with demand will be key to managing the online surge.'

Selling a greater proportion of goods online creates challenges for retailers. Not only do they need a functioning website to handle web-based orders, they also require warehouse space as well as the right systems and staff in place to ensure orders are processed accurately and efficiently.

#### BLACK FRIDAY IMMINENT

Black Friday (27 November) will be a massive event as shoppers look to bag bargains. Yet

there have already been signs that retailers are beginning to buckle under the strain of online orders.

Amazon warned shoppers to purchase early to avoid disappointment, while supermarkets have been overwhelmed with demand as people plan for Christmas.

**JD Sports (JD.)** has been working to reduce an online order backlog, by bedding in new automation technology to increase fulfilment capacity, ahead of Black Friday and Christmas.

Due to increased social distancing measures and lockdown restrictions across large parts of the UK, JD Sports has experienced high levels of demand from customers choosing to shop online, while in line with Government guidelines, the retailer has also had to reduce the number of staff working in its UK distribution centre to ensure they are able to work safely on site while practising social distancing, triggering temporary delays recently in shipping online orders.

#### POTENTIAL FESTIVE WINNERS

Bumper demand for smartphones, laptops and white goods augurs well for online electricals specialist **AO World (AO)**. A strong Christmas would top a successful year for the business which has thrived during the pandemic.



Lockdown beneficiary **Naked Wines' (WINE:AIM)** direct to consumer model has come of age during the pandemic too. The online wine purveyor has positive sales momentum heading into the peak festive period.

British chocolatier **Hotel Chocolat (HOTC:AIM)**, which began as a web-based business, is also one to watch for potential boom in Christmas sales. After all, buying a nice box of chocolates via the

internet is an easy present idea.

Homewares seller **Dunelm (DNLM)** has upped its digital game under chief executive Nick Wilkinson; and premium British lifestyle brand **Joules (JOUL:AIM)** entered the festive selling season with very strong e-commerce sales growth.

We would also keep an eye on online musical instruments seller **Gear4music (G4M:AIM)** and fantasy miniatures maker **Games Workshop (GAW)** as they've been enjoying considerable success this year.

#### SHIFTING HABITS

Coronavirus restrictions have temporarily brought social life to a halt, but people will still want to look their best this Christmas and that creates huge opportunities for online fashion pure-plays and best-in-class omni-channel clothing and footwear purveyors.

Fast-fashion retailer **ASOS (ASC:AIM)** reported positive sales momentum heading into the Black Friday and Christmas period, though the AIM giant did caution that the pandemic is disrupting the lifestyles and economic prospects for many of its fashion-loving 20-something customers.

One marked trend reported by fashion retailers since the start of the pandemic is the unusually low customer returns rates they witnessed through lockdown, though **Boohoo (BOO:AIM)** has been planning for rates returning to normal levels. The pandemic has made shoppers less frivolous and event-led with social life on hold, and more reluctant to make outings to return

**ASOS reported positive sales momentum heading into the Black Friday and Christmas period, though the AIM giant did caution that the pandemic is disrupting the lifestyles and economic prospects for many of its fashion-loving 20-something customers**

items due to virus-related fears.

Should this trend towards lower return rates persist this Christmas, it would mean lower costs and higher margins for retailers, although lower return rates may create a slight headwind for the returns management services arm of **Clipper Logistics (CLG)**. That said, the logistics solutions and e-fulfilment services specialist, whose customers including ASOS and Asda, is still a beneficiary of the continued structural shift to e-commerce accelerated by Covid.

Another growing trend is for major brands to sell their wares direct to the consumer in a bid to expand their margins. Therefore, one risk to the Christmas fortunes of JD Sports, and potentially to Sports Direct owner **Frasers (FRAS)**, is that Nike is increasingly selling its sought-after running shoes and sneakers directly to customers and less via retailers.



Clothing by Boohoo-owned Pretty Little Thing

# Digital Christmas winner

## BUY SHARES IN NEXT



EVEN IF THEY can open during December, non-essential retailers face truncated trading thanks to Covid restrictions and the task of selling a much larger proportion of goods online.

If we had to put our money on one general retailer to meet the challenge this Christmas it would be **Next (NXT)**, the Simon Wolfson-led clothing-to-homewares colossus that traditionally kick-starts the festive reporting season in early January.

Generating more than half of its sales digitally, Next's online sales grew by a bumper 23.1% in the third quarter to 24 October, reflecting strong sales both at



home and overseas and more than offsetting a 17.9% drop in sales from physical retail stores.

Not only run by one of the sector's best-in-class management teams, cash-generative Next is admired for its tight cost control and good stock management, meaning it avoids the need for margin eroding discounts.

And given the ongoing requirements for social distancing, Next's out-of-town retail park outlets should trade well once non-essential retail shops re-open in the brief window before Christmas (subject to Government decision).

Put 5 January 2021 in your diary, as this is when Next will update investors on its sales performance up to and including Boxing Day.

### THE UNDERDOGS?

**The Works (WRKS)** could be a stock to keep an eye on. While its physical stores have been affected this year by closures, online sales roughly doubled over the 19 weeks to 25 October and The Works' board games, jigsaws, art and craft materials and books for children and adults could be in demand as Christmas presents.

Lesser known, digital value retailer-to-educational resource supplier **Studio Retail (STU)** recently flagged a strong performance from its primary business, Studio, which has thrived during the period since lockdown. The company sells a wide range of goods and used to be called Findel.



Half year results on 8 December will provide investors with insight into festive sales trends. Risks to consider with Studio Retail include the fact the group remains indebted, while a prolonged recession would diminish the purchasing power of Studio's core consumer demographic.



# Digital Christmas winner

## BUY SHARES IN SAINSBURY'S



THE DECISION BY **Sainsbury's (SBRY)** to close 420 standalone Argos stores might give the impression it had failed with its 2016 acquisition of the toys-to-home products seller.

Yet that would be wrong as the business has been a saviour to the company in recent years. There is merit in its store closure actions and as we approach Christmas the future for Argos looks brighter than ever.



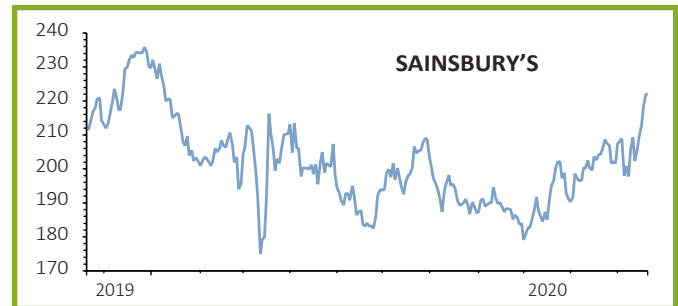
Earlier this month new chief executive Simon Roberts announced a plan to refocus the business on food. It's worth noting that Sainsbury's has historically done well at Christmas with its premium Taste the Difference range boosting revenues and margins.

Roberts also laid down the rule that the non-food businesses must 'deliver in their own right'. They include Habitat, where Sainsbury's plans to push the brand harder, and Argos.

Argos is already a key sales growth driver and outperformed the market for furniture, electronics, domestic appliances, office equipment and gaming in the group's first-half period to 19 September.

It also outperformed Sainsbury's own general merchandise business, which continues to suffer negative sales momentum, and even beat the food business in terms of growth.

A key attraction is its superfast delivery, which gives it an edge over competitors including Amazon. Customers can order by 5pm and receive



the item by 11pm on the same day, or order by 8pm and receive it the following day, often very early on. Amazon also offers same day or next day delivery, but customers must order by midday for same day delivery and next day delivery often doesn't happen until late in the day.

Sainsbury's says 90% of Argos orders are now made online versus 55% four years ago, representing a major shift in customer behaviour.

During the first lockdown in March, sales rose even though standalone Argos stores were closed, and their gradual reopening barely made a difference to the brand's revenue growth rates suggesting Sainsbury's doesn't need as many standalone stores.

Sainsbury's says customers have changed the way they shop with much greater take-up of home delivery and click and collect, although it's likely the lockdown closure of standalone Argos shops also forced customers to behave differently.

Opening 32 local fulfilment centres will give Sainsbury's greater ability to service homes and stores quickly with Argos products and means stores don't have to hold as much stock.

In the old days, there was something magical about seeing the items materialise on the conveyor belt in-store and scanning through the catalogue at Christmas time was a favourite pastime for many. But unlike a lot of activities now confined to nostalgia Argos has made the jump to the modern world and Sainsbury's has a big opportunity this holiday season and beyond. Buy Sainsbury's shares.

# DELIVERING THE GOODS



LOGISTICS COMPANIES WILL play a major role in this year's digital Christmas bonanza, namely getting the products to the customer's door.

**Royal Mail (RMG)** has been seeing an uptick in parcel volumes but plummeting letter volumes and a stubbornly high cost base mean there are bigger issues to resolve even if does have a good Christmas.

Costs are set to soar this quarter as it adds 33,000 temporary staff to cope with demand over the peak Christmas season which will eat into the higher projected revenues. There is also the omnipresent threat of Amazon which has invested heavily in its last-mile delivery service, turning itself from a customer to a competitor.

We prefer Berkshire-based **DX Group (DX.:AIM)** as a share to own, particularly as historical problems seem to have been addressed and the business is bouncing back.

DX provides parcel handling, secure, courier and logistics services to business and residential addresses across the UK and Ireland.

The DX Express business operates next-day and scheduled courier deliveries while the DX Freight

business also offers logistics solutions including managing warehouses and operating customer-liveried vehicles.

Despite a decline in activity during lockdown, the firm managed to increase turnover and post a profit in the year to June, reallocating resources from business-to-business customers to the business-to-consumer market as online shopping surged. Trading since June has been ahead of last year and the firm expects to increase volumes and expand its margins this year.

Another firm well placed to benefit from the switch to an online Christmas is van hire and accident management firm **Redde Northgate (REDD)**. Now a 'mobility solutions' business, it supplies, services, repairs and recovers light vans for a large customer base including major e-commerce, delivery and consumer goods firms.

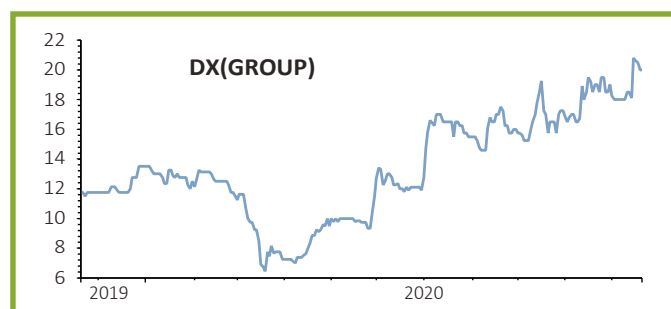


With 110,000 owned vehicles and over 500,000 managed vehicles in the UK, Ireland and Spain, the firm has huge scale and can respond quickly when demand surges.

Also, whereas previously it would take on debt to finance an expansion of its fleet, a fall in leasing costs means the firm no longer has to buy vans outright if it wants to grow.

The shares should be considered as higher risk as Northgate has a mixed track record, net debt is quite high and the merger with Redde is still relatively new.

However, trading since the first lockdown has been above last year's levels, and as visibility improves for its customers more of them are likely to shift to longer-term rental deals with minimum lock-ins rather than hiring vans as and when they need them.



# WAREHOUSING: STORING THE GOODS

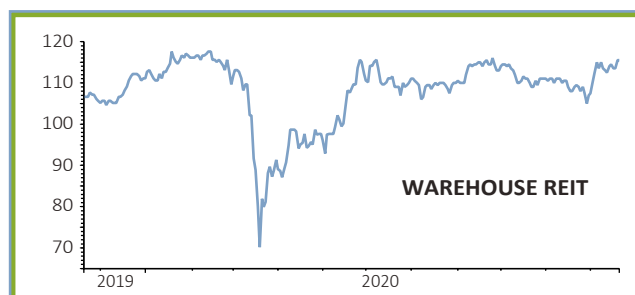
IF THE MORE gradual shift to online shopping seen prior to the pandemic has increased the value of warehouse assets, then the acceleration in this trend since February 2020 and the upcoming Covid Christmas should supercharge valuations.

To sell an increasing volume of product over the internet, retailers need hubs to store goods and process and distribute orders. This includes large automated warehouse facilities and smaller sites in urban locations for last mile delivery.

A recent study published by the UK Warehousing Association showed there was less than 3% available warehouse capacity nationwide.

Unlike some of its industrial-focused peer group, many of which trade at premiums, **Warehouse REIT (WHR:AIM)** trades at a discount to net asset value of 2.9%.

This may be a question of scale as it has a more



modest-sized portfolio which traditionally has included smaller assets. However, following a £153 million fundraise in July the company has been reshaping the portfolio and the discounted valuation seems increasingly unjustified. We believe the shares are worth buying.

The most recent acquisition was a demonstration of Warehouse REIT's continuing ability to acquire assets at reasonable valuations despite increasingly fierce competition for assets.

A portfolio of five warehouses in a variety of locations was purchased for £43.6 million which translated into a net initial yield of 6.7%. While the increased clamour for this type of asset may be a challenge when it comes to adding to its portfolio, there is scope to add value through asset management, by increasing rent and bringing in new tenants.

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# Investing in green energy – a powerful addition to a portfolio



***The global advance of the COVID-19 coronavirus has made 2020 an extraordinarily testing year for investors across almost all sectors and geographies. Those seeking some positivity amidst these bleak times might do well to look at green infrastructure: i.e. renewable energy, energy efficiency and the 'circular economy'.***

EVERYWHERE WE look, the world is going green, from recycling, to organic groceries, to sustainable food production, to – needless to say – green energy. Everyone, it seems, including climate change scientists, businesses, governments and consumers is interested in diluting the pressures to which the environment is being increasingly subjected. For economies, investment in green infrastructure satisfies several needs: enabling them to meet climate change pledges, and creating large numbers of jobs for example. For consumers, there is a growing body of evidence that investing in cleaner, greener energy sources may provide good returns to a portfolio.

## **A HOT TOPIC**

In a world increasingly troubled by the effects

of climate change, green energy, in all its manifestations, rarely finds itself far from the top of the political and commercial agenda. As a consequence, the generation of power that isn't reliant on the burning of fossil fuels to generate electricity for domestic or industrial consumption – wind, solar and water being the top three sources – is creating a plethora of investment opportunities as the movement gathers momentum. Take wind power: it's one of the fastest-growing sources of renewable energy, having increased 75-fold over the past two decades; China leads the world with 217 gigawatts (GW) of installed capacity in 2018, followed by the US with 96 GW and Germany with 59 GW. Despite the pandemic-influenced downturn, overall investment in new renewable energy capacity was \$132.4bn in the first half of 2020, up 5% from \$125.8bn in the same period of 2019<sup>1</sup>.

With limited supplies of those fossil fuels and growing concern over their environmental impact, governments across the world have committed to dramatically lowering their CO<sub>2</sub> emissions. According to the International Renewable Energy Agency, countries will need to double their annual

<sup>1</sup>The Guardian/BloombergNEF (BNEF), 13th July 2020

investment in renewables, to circa \$600bn, in order to meet the Paris Agreement target of limiting global warming to within 2 degrees Celsius by 2100. In the UK for example, one of Theresa May's final acts before stepping down as prime minister in 2019 was to enshrine in law a commitment to reach net zero carbon emissions by 2050, making it the first member of the G7 group of industrialised nations to do so. France also proposed net zero emissions legislation last year, while some smaller countries have targeted dates prior to 2050, such as Finland (2035) and Norway (2030), although the latter allows the buying of carbon offsets. For the UK to reach its target, around 135 GW of new wind and solar capacity need to be delivered over the next 30 years, or 4.5 GW each year – according to Aurora Energy Research – which should serve to ensure that infrastructure investment in the sector remains buoyant.

The significant positive effect on the UK economy of increased government support for green infrastructure has also been quantified by recent statistics published in July of this year by RenewableUK; it forecasts £20 billion of new investments and 12,000 new jobs in the UK as part of the nation's sustainable economic recovery package. Since the lock-down began on 23rd March, UK-based wind companies have already announced new projects and investments worth more than £4 billion, creating in excess of 2,000 UK jobs, despite a marked shrinkage in the rest of the economy.

### THE OUTLOOK FOR RENEWABLES

Renewables are predicted to be the fastest-growing energy source over the next 20 years, with the sector bolstered by the declining cost of wind and solar power. For the first time, in 2018, the cost of generating electricity from offshore wind turbines became cheaper than nuclear energy, having fallen by almost half in the previous two years. In 2007, renewable technologies accounted for 23% of the UK's new power capacity; 10 years later, it was 61%<sup>2</sup>.

Many industry commentators see this accelerating demand for alternative sources as signalling a 'new era' for energy, which in turn presents opportunities for investors. It's a view shared by David Smith, manager of Henderson High Income, an investment trust.

One way in which Henderson High Income Trust has gained exposure to the growth in



renewable energy is through investments in the utility sector. This sector was once seen as dull with negligible growth prospects but has seen a renaissance in the last few years. Recognising the shift towards renewable energy early, some of the companies in the sector started to transition their businesses away from coal and other high carbon emitting energy sources towards onshore and offshore wind, solar and other renewable energy generation such as hydroelectric. The likes of RWE and EDP in continental Europe and SSE in the UK now generate the majority of their profits from renewable energy generation and pay an attractive dividend yield of 2.9%, 4.2% and 6.0% respectively<sup>3</sup>. Each company has plans to continue their transition with large pipelines of new projects to significantly increase their renewable energy capacity over the next five years, with RWE adding 7.7 GW of additional capacity, EDP 5.8 GW and SSE 2.4 GW – growth of 119%, 62% and 88% respectively<sup>4</sup>. This will help underpin profit growth, especially as technologies improve to make renewable energy

<sup>2</sup>Knight Frank: Renewables & UN/BloombergNEF (BNEF), 2018

<sup>3</sup>Bloomberg, 30th September 2020

<sup>4</sup>Credit Suisse, 30th September 2020



assets more cost-competitive, supporting future dividend growth from the already attractive yields available. Also, with the three utilities' exposure to renewable energy set to increase in the medium term, one could argue that the businesses should be valued more highly given they are becoming more sustainable in the longer term.

As climate change has become an increasingly important issue within society, and with governments signed up to agreements to reduce greenhouse gases, significant investment is required in renewable energy generation. The utility sector is well placed to benefit from this structural growth over the long term but also pay attractive dividends in the short term.

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## GLOSSARY

**Dividend yield:** expressed as a percentage, is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price.

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# Why commodity prices seem to be full of beans

Will rising commodity prices stoke inflation as companies pass on extra costs and consumers seek pay rises to support higher cost of living?

**O**ne of the fiercest debates of 2020 from an investment perspective remains whether inflation, stagflation or deflation will be one result of the pandemic and some of the policies deployed in response to it.

No-one knows the ultimate outcome – not even central bankers, who, if they did, would not be still using and tweaking policies that were called unorthodox and exceptional when they were launched over a decade ago in further efforts to generate the inflation they crave.

All investors can do is watch out for possible signs that inflation or deflation is on the way and keep an open mind.

Judging by yields of 0.38% on the US five-year Treasury bond and 0.02% on the UK five-year Gilt, bond markets take the view that deflation remains the danger. That suggests the next few years will be like the last 10 or so – namely low growth, low inflation and low interest rates.

Such an environment has a proved fertile breeding ground for long-duration assets such as



technology, biotechnology and 'growth' stocks, as well as bonds, but harder work for shorter-duration assets such as cyclical or 'value' equities and commodities.

Yet not everyone is convinced. Five-year forward inflation expectations are hovering around 1.8% and if that proves right then developed market government bonds offer relatively little protection.

Inflation expectations are not currently rising but it will be interesting to see if they are influenced by commodity prices, which are ticking higher once more.

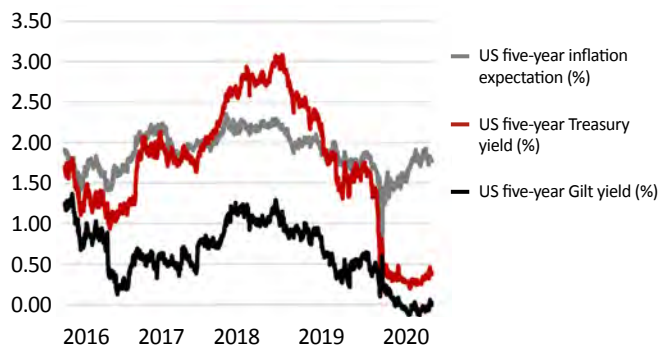
## PRICE MOVEMENTS

Even a casual glance at the media will give a flavour of the action in commodity markets. Copper trades above \$7,000 a tonne and after a 60%-plus rally since spring trades at its highest mark for two-and-a-half years.

Iron ore is pushing toward \$130 a tonne and its best mark for at least five years. Soybeans stand at a four-and-a-half-year high and corn prices are at the highest level since July 2019. Cocoa stands at a nine-month high.

The net result is that the Bloomberg Commodity index is nearing the peak of 2018 and thus bearing down on levels last seen before that in 2014.

### Inflation expectations still exceed bond yields (but they are no longer rising)



Source: Refinitiv





### The Bloomberg Commodities index stands near two-year highs



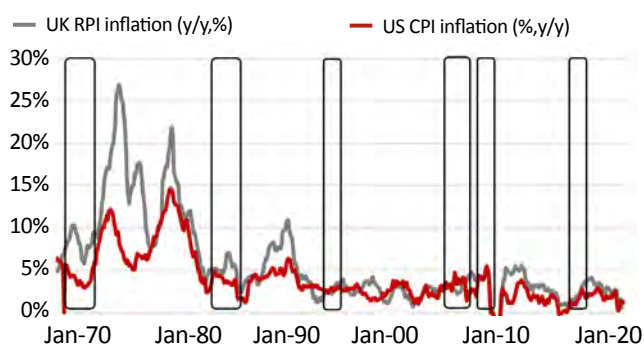
The question now is whether this is a trend and whether rising raw materials costs for companies and rising food costs for consumers will lead to inflation, should the former raise prices to protect profit margins and the latter demand pay rises to help them meet the higher cost of living.

In such an uncertain economic environment as the current one, few firms or consumers may be willing to chance their arm, it must be said. But in a post-vaccine world the picture could look very different, emboldening both.

It is tempting to argue that the increase in copper and iron ore prices is one indication that an economic upturn is on the way, thanks to fiscal and monetary stimulus programmes the world over and expectations that a vaccine is on the way and 2021 will be a better place all round.

The food price increases may not be quite so

### La Niña weather patterns do not have a clear influence on inflation on both sides of the Atlantic



conclusive and could just as easily be the result of the La Niña weather pattern which is in evidence this year. This complex meteorological feature occurs relatively rarely – America's National Oceanic and Atmospheric Administration says this is just the seventh incidence since 1970 – but it can lead to below-average rainfall in Peru and Chile, East Africa and southwestern America and bring storms and floods to Brazil, Southern Africa, Australia and Asia.

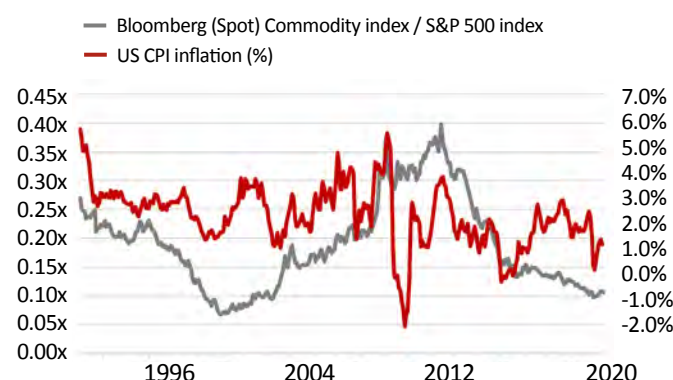
Investors have enough imponderables to face without having to think about the weather. Second-guessing such near-term patterns really would be a mug's game especially since inflation in America accelerated during only two of the last six La Niña patterns, even if it did so five times in the UK.

### MAJOR SHIFT

Nevertheless, it should be informative to see how the Bloomberg Commodity index fares. Having massively outperformed equities in the first decade of this millennium, commodities were huge laggards in the second.

Whether we are on the cusp of one of those once-in-a-decade shifts that has huge ramifications for asset allocation and equity and fund selection remains to be seen. But commodity prices do not, for the moment at least, share the bond market's conviction that the next five to 10 years are going to see the same economic backcloth as the last five to 10.

### Is the Bloomberg Commodity index starting to outperform the S&P 500 once more?



# Opening the DORE to a greener future

*Downing LLP believes that diversification is key to unlocking sustainable returns*

Renewable energy investments have been given a huge boost by the UK government's recent commitment to achieving net zero emissions by 2050. Electricity demand in the UK is expected to grow by up to 70% over the next 30 years as consumers change their behaviour to contribute to a cleaner, greener future. It is therefore perhaps not surprising that renewable energy infrastructure investment companies are currently trading at a premium, on average almost 15%<sup>1</sup> above their net asset value (NAV).

The latest opportunity in this popular sector is the Downing Renewables & Infrastructure Trust plc (DORE). DORE is designed to deliver stable returns through diversification across solar, wind, hydro, geothermal and other infrastructure in the UK, Ireland and Northern Europe. Investing across different technologies reduces seasonality and dependency on any single resource. This is because during the winter and autumn months revenues are generated from hydro and wind technologies, while in the spring and summer, solar technologies come into play (see below).

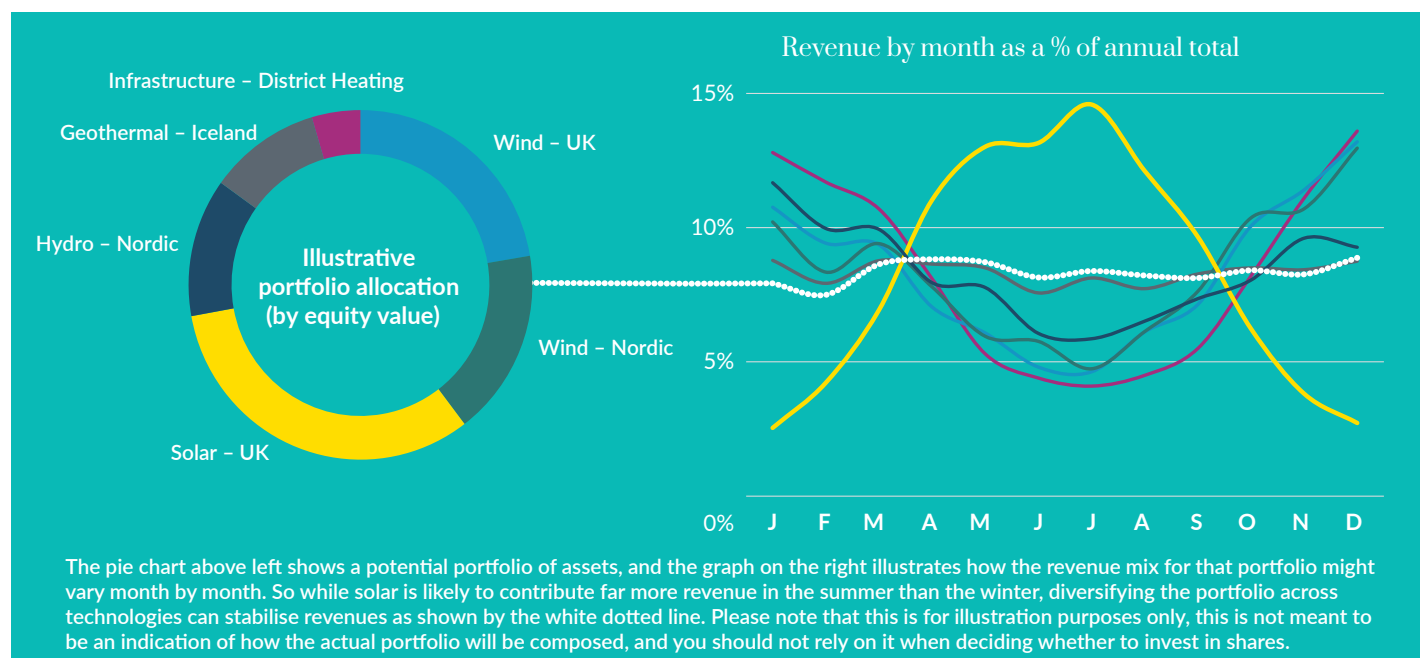
DORE is looking to raise £200 million to invest in renewable assets that will deliver target total return on net asset value of 6.5% - 7.5%<sup>2</sup> p.a. in the medium-long term. There is a strong pipeline of assets to acquire, and up to £30 million of cornerstone investment is already in place.

Tom Williams, head of energy and infrastructure at Downing LLP, the investment manager, says: "We have a considerable track record investing in renewables, having deployed capital in 116 assets over the past decade, delivering average gross returns over 9%<sup>3</sup>. Our 27-strong team includes a dedicated asset management unit entirely focused on ensuring the assets operate to their full potential, maximising the revenues generated."

<sup>1</sup>Source: AIC list of renewable energy infrastructure investment companies, prepared by Morningstar as at 23.11.20.

<sup>2</sup>Target returns are not profit forecasts- there can be no guarantee that these targets will be met.

<sup>3</sup>Based on the unlevered weighted-average gross Internal Rate of Return on exit for the 55 assets sold since 2010.



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# Our view on the AIM stock which has returned over 1,000% this year

Greatland Gold has had a storming run on positive news flow and a stronger gold price



**H**aving delivered a return for shareholders of over 1,170% this year, it's fair to say AIM-quoted gold miner **Greatland Gold (GGP:AIM)** has generated a considerable amount of excitement among investors this year.

The £875 million market cap company is a gold explorer, a type of mining company that looks for big deposits of gold and then works with a bigger miner which has the resources to take the project through to production.

Greatland has had a storming run so far in 2020 with its share price rising from 1.8p at the start of the year to over 22p. It has great assets, however we think there may be better entry opportunities for the shares in the future, particularly with some of the recent strength

in the gold price waning of late. Mindful of that, we think this is one to add to your watchlists and buy when some of the heat has come out of the stock.

## OUTSHINING GOLD

Greatland's stunning performance is in part thanks to the rising gold price, as miners of all types tend to be leveraged plays to the commodities they find in the ground, but also down to a lot of exciting news flow from the company over the course of the year.

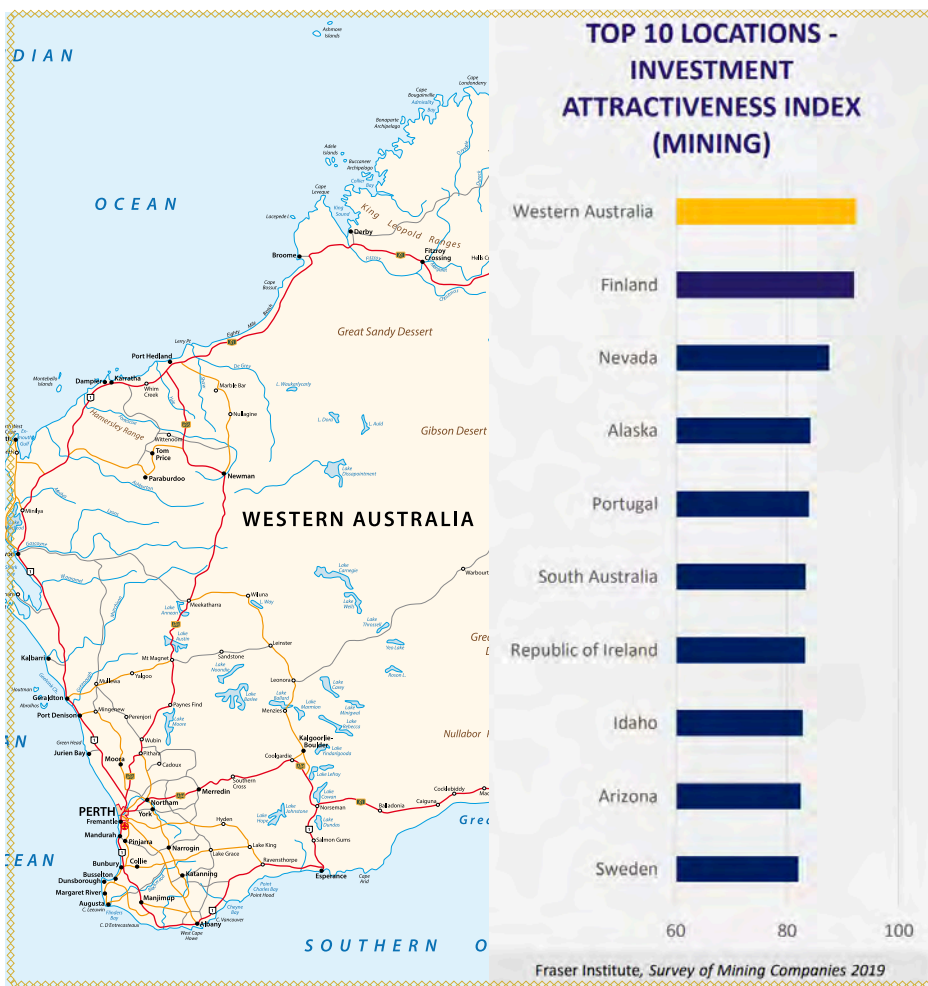
Most of the excitement has come from its Havieron project, a major gold deposit in the Paterson region of Western Australia which has been shown to have extensive mineralisation. In other words, there's a lot of the gold in the

ground there which can be dug out.

Greatland has partnered with gold mining giant Newcrest, which owns the nearby Telfer mine, to help develop the project. Newcrest works under a farm-in agreement, whereby the more money it puts in to explore Havieron, the more of the project it owns.

When the time comes to build the mine Newcrest, which is on the ground managing the project, will own 70% of it with the option to acquire another 5% at fair market value.

To give an idea of how much positive news flow has come from the asset, Greatland Gold has issued four stock exchange announcements so far in 2020 with the exact headline 'Further Outstanding Drill Results at Havieron'.



## DEFINING GREATLAND'S SUCCESS

In the mining world, any grade over eight grams of gold per tonne (g/t) of ore in an underground deposit is generally considered to be very good.

Greatland's drilling results have shown big stretches of rock with 9.3g/t, and smaller pockets with 13g/t, 19g/t and even 78g/t.

In a detailed initiation note last month, analysts at broker Berenberg slapped a 'hold' rating on Greatland Gold with a target price of 22p, indicating they don't see much share price growth in the near-term.

But the analysts also highlighted the junior miner's other prospects and said the discovery of a second Haverion-style target would

be 'transformational' for the company.

Speaking to *Shares*, Greatland Gold's chief executive Gervaise Heddle unsurprisingly insists there is still a lot of shareholder value to be created, with 'a lot of potential upside' to come from Haverion, and that's before touching on the other promising targets which are showing potential.

He says: 'We've got a lot more work to do with Haverion. We still haven't found the limits to what resource is available. It's one of those remarkable geological projects that just keeps on surprising – there's still a lot of geological opportunity there.'

A lot of Haverion's potential became visible in the second half

of 2019 with Greatland reporting high grade mineralisation from Newcrest's drilling campaign, but this positivity seemingly wasn't shared by investors with Greatland Gold's share price remaining pretty flat until the start of this year.

On this point Heddle says, 'This sometimes happens with AIM stocks. There's a steady release of positive news flow but the share price won't budge. Sometimes it takes a while for the market to catch up and reflect the new realities on the ground.'

Aside from Haverion, Greatland has also found other areas which come under the scope of its exploration licence that could potentially contain big amounts of gold.

## OTHER PROMISING PROSPECTS

The most promising of these could be its Scallywag and Paterson Range East prospects, which have shown significant geophysical anomalies, with drill testing having already commenced.

Berenberg highlights this as another key to the investment case for Greatland Gold and says: 'Deposits such as Haverion and Telfer do not occur in isolation so we believe that it is likely that other economic deposits could be found in the region as the company works through the list of geophysical targets for follow-up. The discovery of a second Haverion-style deposit or similar would be transformational for the shares.'

More immediately, the analysts see a maiden resource estimate for Haverion as being a



catalyst, something which is due before the end of 2020.

They forecast an estimate 3.75 million ounces of gold based on the broad dimensions and grades that have been released to date, with a further 1.75 million ounces ultimately being drawn from the eventual inclusion of another zone within the project which potentially has a lot of gold in it.

The analysts foresee average annual production from the mine to be around 239,000 ounces of gold a year, at an all-in sustaining cost (AISC) of \$862 per ounce. For reference, an AISC under \$1,000 per ounce of gold is considered good for gold miners.

### WHAT IS THE END GAME?

Another question to consider is what is the end game for Greatland Gold? Will it end up selling Havieron to Newcrest and keep exploring in perpetuity? Will Newcrest decide to buy Greatland? Often the mining majors like Newcrest choose to buy juniors like Greatland when they discover promising projects near their own assets.



Certainly this is something Berenberg can see happening, with Newcrest choosing to acquire Greatland so it can wholly own Havieron.

Berenberg says: 'In our view, it is highly likely that Newcrest will ultimately elect to purchase Greatland in its entirety once the feasibility study has been completed as the exploration potential of the broader Paterson area, in conjunction with Havieron itself, could underpin the long-term future of Telfer.'

'From an early stage of the farm-in agreement, Newcrest has shown a high level of commitment to the project. Its exploration spending has increased at a faster rate than envisaged in the farm-

in agreement.'

The analysts point out that there have been many previous examples in the mining world where the major has ultimately elected not to acquire the junior partner, so Greatland being taken over is not a guaranteed outcome.

Heddle doesn't rule out the possibility of being acquired, but insists his company's focus is on progressing Havieron through the next steps and ultimately into production in order to 'produce positive free cash flow for our investors', while also making further progress on its other targets.

Should Newcrest decide to acquire that additional 5% of Havieron when the time comes, Heddle adds this would provide a 'significant cash injection' which the company would use to fund exploration at other targets.

He says: 'We're always looking at ways to add shareholder value. There's a lot of potential across the Paterson to discover more tier one projects. We don't want to stop just because we have Havieron.'

### HAVIERON AGREEMENT WITH NEWCREST - NEXT STEPS

	Stage 3	Stage 4	Post-stage
<b>Terms</b>	Newcrest spends \$25 million and delivers pre-feasibility study	Newcrest spends another \$20 million to help carry out the feasibility study	
<b>Outcome</b>	Newcrests earns additional 20% interest in Havieron	Newcrest gains another 10% interest in project	Newcrest has option to acquire extra 5% interest in Havieron
<b>Timeframe</b>	Within 24 months	Within 24 months of stage 3	
<b>Newcrest total interest in Havieron</b>	60%	70%	75%

Source: Greatland Gold, October 2020



By Yoosof Farah  
Reporter



## A bright horizon for gold and a green revolution for speciality metals

### Choose an active manager who understands both

#### Are gold miners poised to outperform?

Gold has proven to be a highly effective safe haven so far during the COVID-19 crisis and we believe there is far more to come from the sector in the months and years ahead. The gold sector's recovery is backed by a supportive macroeconomic environment of low real interest rates, historic levels of economic stimulus, rising debt and heightened economic risk.

Supported by these higher gold prices, gold miners are in the healthiest shape they have been for decades, having paid down debt, expanded margins and increased dividends while maintaining discipline over capital and M&A. Yet, company valuations do not yet reflect this positive outlook.

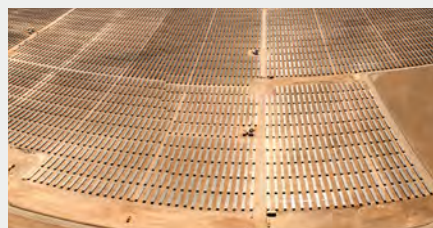
Undoubtedly, the gold recovery cycle will not be linear, and it is our view that pull-backs can present potential opportunities for investors.

*Baker Steel's award-winning precious metals equities fund invests in a portfolio of mid- to large-cap gold and silver producers, with a focus on value and quality.*

[Explore here](#)

#### What connects sustainability and speciality metals?

The themes of sustainability and climate change have implications across a multitude of industries, yet among those facing the largest transformation in the years ahead will be the mining industry. The growth of renewable energy, electrification of transport and the development of battery technology, among other themes, will have profound consequences for the suppliers of the metals used for these industries. The "green recovery" from the COVID-19 crisis presents opportunities for miners previously unseen.



*Baker Steel's precious and speciality metals equities strategy aims to give its investors exposure to these increasingly important themes, while maintaining core investment principles.*

[Discover more](#)

#### Can experienced active managers deliver superior returns?

Baker Steel's Investment Team collectively has over 100 years of sector experience ranging from technical roles with mining companies to multi-cycle investment management experience. As investment specialists in the mining sector, we are struck by the undervaluation of the mining sector relative to broader equity markets and compared to historic levels.

Stock selection for Baker Steel's range of natural resources focused funds is determined by value-driven fundamental research combined with managing risk. Our active management approach has allowed our team to generate consistently superior absolute and risk-adjusted returns over the long-term.

*You can explore our range funds further using the links above or organise a call with our team today to fully discuss the strategies available in order to understand better the potential opportunities ahead.*

[Book a call today](#)

# Emerging markets: large caps versus small caps

We look at some differences between big and little firms in the developing world

**I**nvesting in emerging markets is generally seen as involving a different set of challenges and risks when compared with their more mature counterparts.

In this context small cap emerging market firms add another layer of risk, given smaller businesses are more prone to failure. However, there are some interesting dynamics behind smaller companies in the developing world which are worth acknowledging too.

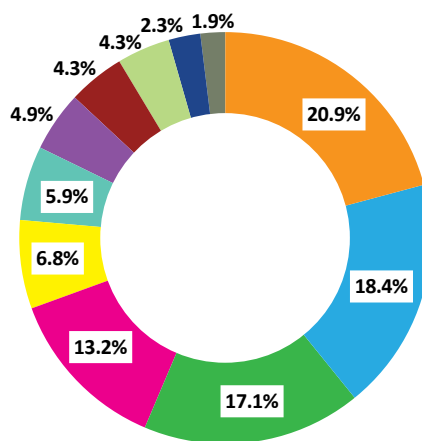
As a starting point it is useful to analyse the differences between the larger and smaller EM firms. To do this we've employed the relevant MSCI indices – MSCI Emerging Markets (dominated by larger businesses) and MSCI Emerging Markets Small Cap – and we can draw some conclusions based on both the sector and geographic breakdown.

As indicated by the charts, the small cap index has a greater skew towards technology – although only slightly. Perhaps more notable is the greater degree of diversification more widely across various sectors.

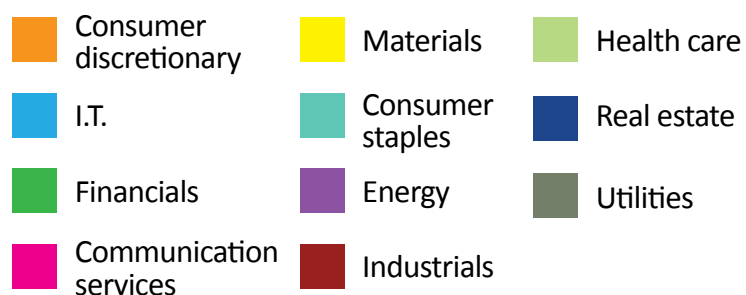
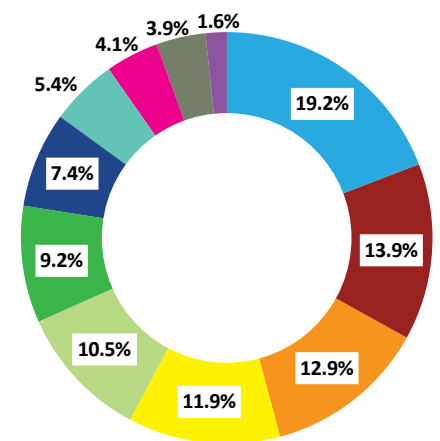
Only three industries in the main emerging markets index have double-digit weightings compared with five in its small



**MSCI Emerging Markets – sector breakdown**



**MSCI Emerging Markets Small Cap – sector breakdown**



Source: MSCI. Data as at 31 October 2020.

cap counterpart.

This greater diversification is evident on a country basis too. China has the largest weighting at 43.2% in the main index while

the small cap version has Taiwan with the biggest representation at a little over half that level.

In terms of performance, on a five-year view the Emerging Markets index has beaten Emerging Markets Small Cap index with respective net returns of 7.9% and 3.3% up to 31 October 2020.



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This outlook is part of a series being sponsored by Templeton Emerging Markets Investment Trust. For more information on the trust, visit [here](#)



# Emerging markets: Views from the experts

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

**1. Emerging market (EM) small-capitalisation** (small-cap) stocks outperformed their large-cap counterparts over the last six months. A catch up from the sharp underperformance in the first quarter was a key driver of the stronger EM small-cap recovery. EM small caps have attracted less investor attention due to the growing market concentration of performance in a handful of mega-cap companies, as disruption from the Covid-19 pandemic drove interest in technology giants. We believe that the long-term structural story for EM small caps is not undone and remains compelling, underpinned by domestic economic drivers and the consumption growth story. As such, we believe that dedicated small-cap exposure should be viewed as complementary to large caps.

**2.** Despite the COVID-19 pandemic, EMs have shown a continued appetite for **structural reforms** that could lay the foundation for lasting economic recoveries. China, for example, has stayed true to its longer-term goal of making domestic consumption a major economic engine—and a source of potential ballast during external demand shocks. India's sizable fiscal deficit has limited



the government's ability to spend on shoring up its economy. We expect privatizations and other economic reforms to offer more support by attracting investments. The country's 'Make in India' initiative, aimed at growing the manufacturing sector, appears well placed to benefit from several trends.

**3.** The recent **weakening of the US dollar** relative to EM currencies can be attributed to the continued

challenge of containing Covid-19 in the United States, the unprecedented level of US fiscal stimulus and dovish monetary policy, and market expectations of subsequent fiscal stimulus. The weaker US dollar is generally beneficial for EM equities—and especially Asian equities—with many companies domestically oriented. As such, earnings should improve in US dollar terms. A weaker dollar also gives emerging economies more leeway for fiscal measures.

## TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

### Portfolio Managers



**Chetan Sehgal**  
Singapore



**Andrew Ness**  
Edinburgh

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





# Kepler

Trust  
Intelligence

## Thinking outside the box

### Kepler Trust Intelligence looks at the unique approach to value investing taken by Seneca Global Income & Growth Trust...

Following the stock market crash that we saw in March of 2020, and subsequent falls after concerns over a second wave of COVID-19, a wide range of UK shares – already some of the most unloved equities in the world in part thanks to the rancour surrounding Brexit negotiations and the uncertainty of the future trading conditions for UK companies – are now trading at what seem like extraordinarily low valuations.

However, such is the aversion to risk which we are seeing, that, amongst any company which is not more or less explicitly tied to internet, retail or technology, there seems very little distinction made between these vulnerable companies and others which are in far better shape.

**Seneca Global Income & Growth Trust (SIGT)** – as a globally diversified multi-asset trust – may not be an obvious choice for UK exposure. However, with 30% of the portfolio in UK equities, it offers flexible and differentiated exposure to any UK recovery. While a recovery may yet be some time away, investors in SIGT are currently being ‘paid to wait’ with an attractive current yield of 4.6%.

### Value, but not as you know it...

There is no way of knowing how long it will take for sentiment to recover after the market crash. However, history shows that over the long term this should ultimately correct itself. Furthermore, the UK economic outlook could improve going forward, with stock market valuations essentially suggesting there is no realistic prospect of economic recovery, as discussed below.

SIGT are looking to take advantage of this and have a clearly demonstrated track record of success in doing so. Over the past decade we have seen ‘value’ companies drastically underperform growth. However, with good selection there have been some excellent returns even in this unloved sector. This is shown below, with the trust dramatically outperforming the wider value index.

### SIGT UK RETURNS VS MSCI VALUE



Source: Seneca AM, Kepler Partners

Although valuation underpins the stock-selection process, stock positions are not initiated solely on the expectation of valuation uplift to drive returns. Instead, the team are look for opportunities in stocks with strong operational positions. A recent stock example is **Purplebricks**. The team have long had the company on their watchlist, however the sharp de-rating due to the market correction, as well as the removal exiting of non-core businesses, gave SIGT an opportunity to enter the stock. Similarly, the team are able at present to identify companies which show structural growth opportunities likely to feed into enhanced dividends, but where the perceived exposure to cyclical economic pressures continues to weigh on the share price valuation. This can be seen in their holding in **Vistry**, the UK housebuilder. Perceived as a ‘cyclical’ stock because of the nature of its business, Vistry presently trades at below its reported book value, and below reported revenues. Whilst its business has been impacted by the COVID-19 pandemic and associated economic shutdown, there remains an imperative to build more housing stock in the UK, with mooted reforms to planning laws perhaps catalysing this.

While waiting for these opportunities to potentially grow and re-rate, investors can enjoy a dividend from the trust as mentioned above. SIGT has a long-term total return mandate, to which dividends will contribute. The majority of the income generation comes from equities and alternatives and is diversified by both asset classes and geography.

Market level valuations in the UK continue to be severely discounted relative to other global markets, and fund manager surveys continue to indicate the UK remains a significant underweight allocation amongst institutions. This suggests to us that any risks specific to the UK at the market level are already priced in, and likely more. If the global economy starts once again to contract, downside risk looks more accurately priced into UK stocks than many others, and global equities will highly likely struggle in any event. SIGT’s significant UK equity exposure aims to access areas where such an asymmetric relationship exists.

With the IMF’s chief economist calling for mass fiscal support of global economies and a likely definitive resolution to Brexit negotiations, along with a result in the US election, it seems eminently possible that global sentiment towards the economic outlook could rapidly shift to a more positive footing, despite recent reintroductions of lockdowns. SIGT’s equity book seems well placed to benefit in such a scenario. Yet this is balanced within a multi-asset exposure, with a significant allocation to alternatives and protective strategies which should offer the portfolio downside protection in a more negative scenario.

To learn more about how SIGT are refining value investing, read the full report [here....](#)

### Disclaimer

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# Life after Mark Barnett – how his funds have changed under new managers

It's a new start for Perpetual Income & Growth and Edinburgh Investment Trust



**S**ix months since the departure of Mark Barnett from asset manager Invesco, two investment trusts previously run by the once-star fund manager have finally settled into their new homes. Investors are rightfully expecting better performance under the new managers, but what's in store for them?

Perpetual Income & Growth Trust last week completed its merger with **Murray Income Trust (MUT)**, with shareholders now owning stock in the latter company managed by Aberdeen Standard Investments. They've already benefitted from a narrowing of the discount to net asset value ahead of the merger, and now they're getting lower charges and more of a quality focus (versus the former value style).

In March the management of **Edinburgh Investment Trust (EDIN)** switched from Invesco to Majedie, which

has just published the trust's first financial results under its stewardship. For the six months to 30 September, Edinburgh Investment Trust outperformed the market with 7.8% increase in net asset value versus 7% from the FTSE All-Share.

## BARNETT'S MISTAKES

Barnett was considered by many to have taken wild bets on the wrong stocks and deviated from the investment style which created his original success, exactly like Neil Woodford with whom he used to work at Invesco.

He had already been served notice as manager of Edinburgh Investment Trust in December 2019 and Majedie took over four months later. Perpetual Income & Growth sacked Barnett in April which then led to a merger with Murray rather than a straightforward manager change.

Barnett also ran the **Invesco**

**UK Equity Income (BJ04HX6)** and **Invesco UK Equity High Income (BJ04HQ9)** funds, as they are now known, which suffered from large outflows as investors took their money elsewhere due to poor performance. In the end, Invesco parted ways with Barnett in May.

## PERPETUAL TRUST'S NEW HOME

'We are diversified by sector and income,' says Murray manager Charles Luke, the man responsible for delivering better returns to shareholders who have moved over from Perpetual Income & Growth.

'The focus is on high quality companies and resilient income. We benefit from having a 16-strong team providing full coverage of FTSE 350 constituents, so we have lots of research and corporate access. We have a patient buy and hold approach.'

The top positions include

## Edinburgh Investment Trust – recent portfolio changes



**AstraZeneca (AZN), Unilever (ULVR) and Diageo (DGE).** One third of the portfolio is mid cap stocks such as **Close Brothers (CBG)** and **Inchcape (INCH).**

Only 10 holdings from Perpetual Income & Growth's old portfolio feature in Murray's, including **SSE (SSE)**, Roche, **Rio Tinto (RIO)** and **National Grid (NG.)**.

Luke says Murray should see greater liquidity in its shares which, combined with lower charges and a higher profile with the trust now worth approximately £1 billion, should help to reduce its discount to net asset value. The latter has already happened in recent days with the shares trading at a 2% premium as at 20 November versus a 12-month average discount of 4.2% according to Winterflood data.

Just prior to the merger, Luke says Murray was yielding 4.7% with 0.7% of that figure coming from options writing. '4% yield longer term is very sustainable,' he comments, adding that on a calendar year basis Murray has only seen a 15% drop in income from its portfolio holdings versus a 45% drop across the market as companies temporarily

pause or reset dividends.

### STEADY EDDIE

Edinburgh Investment Trust continues to have a value tilt under the new management of Majedie, yet it is not taking any big bets on certain stocks or sectors like Barnett did.

The trust's performance is likely to be less volatile under new manager James de Uphaugh, who says part of his pitch to the board for winning the management mandate was the fact he had a track record of more than a decade outperforming the market by 2.6% a year on average.

One could view him as a 'Steady Eddie' type of investor and one trying to achieve a mixture of income and capital growth.

Only six stocks from Barnett's former portfolio are staying in Edinburgh Investment Trust as core holdings, including **BAE Systems (BA.)**, **Legal & General (LGEN)** and **Tesco (TSCO)**. All the tobacco investments loved by Barnett are gone, and more recently de Uphaugh decreased positions in real estate and financials and increased exposure to mining and healthcare.

Overseas-listed stocks account for 7% of the portfolio. De Uphaugh indicates this figure would have probably been higher had sterling not been so weak earlier this year. 'We felt sterling was undervalued,' he says.

Edinburgh Investment Trust's goal is to achieve greater net asset value growth than the FTSE All-Share and achieve dividend growth above the rate of UK inflation. It is currently yielding 5.6% based on guidance for 28.65p worth of dividends in the year to March 2021 and a share price of 515.25p.

The dividend will be reset to 24p thereafter, so that Edinburgh Investment Trust has a chance of achieving annual dividend growth in an environment where so many companies have decided to be less generous with their own dividends going forward. That implies a forward yield of 4.7% which is still a much greater return that you'd typically find on cash and even many corporate bonds in the current environment.



By **Daniel Coatsworth**  
Editor





# RETIREMENT money show

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The aim of the **Retirement Money Show** is to help all people interested in their wealth in retirement. The Retirement Money Show consists of two webinars, the first focused on the growth stage of your investments for when you are trying to build your retirement nest egg and will look at how to be tax efficient, the second webinar covers the transition to generating income from your investments, living off your investments and pension and the rules on drawdown.

**The webinars are free to join. You can sign up to one or both sessions.**

## **11AM – GROWTH**

### **Building your retirement nest egg**

**11.05** – Laith Khalaf, Financial Analyst -  
AJ Bell

**11.25** – **The Brunner Investment Trust**  
Matthew Tillett, Lead Portfolio Manager -  
Allianz Global Investors

**11.45** – **Scottish Mortgage  
Investment Trust**

Stewart Heggie, Investment Specialist -  
Baillie Gifford

**12.05** – **BlackRock Throgmorton Trust**  
Dan Whitestone, Portfolio Manager -  
BlackRock

### **12.25 – Q&A**

Laith Khalaf, Financial Analyst -  
AJ Bell

Matthew Tillett, Lead Portfolio Manager -  
Allianz Global Investors

Stewart Heggie, Investment Specialist -  
Baillie Gifford

Dan Whitestone, Portfolio Manager -  
BlackRock

**12.45** – End of webinar

## **3PM – INCOME**

### **Maximising investment income and understanding drawdown rules**

**15.05** – Tom Selby, Senior Analyst - AJ Bell

**15.25** – **Invesco Enhanced  
Income Limited**

Rhys Davies, Fund Manager -  
Invesco

**15.45** – **Murray International Trust**  
Bruce Stout, Fund Manager -  
Aberdeen Standard Investments

**16.05** – **Henderson Far East Income**  
Michael Kerley, Portfolio Manager -  
Janus Henderson Investors

### **16.25 – Q&A**

Tom Selby, Senior Analyst -  
AJ Bell

Bruce Stout, Fund Manager -  
Aberdeen Standard Investments

Rhys Davies, Fund Manager -  
Invesco

Michael Kerley, Portfolio Manager -  
Janus Henderson Investors

**16.45** – End of webinar

Register here for the **free Retirement  
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For more information contact Lisa  
**[Lisa.Frankel@ajbell.co.uk](mailto:Lisa.Frankel@ajbell.co.uk)**

# Options for savers as NS&I actions big rate cuts

We consider the alternatives for anyone affected by the punishing drop in interest

**M**illions of NS&I savers will see lower rates of interest paid on their savings from this week onwards. Over £136 billion of cash held with NS&I is affected, with around £25 billion in accounts where the interest has now dropped to virtually nil.

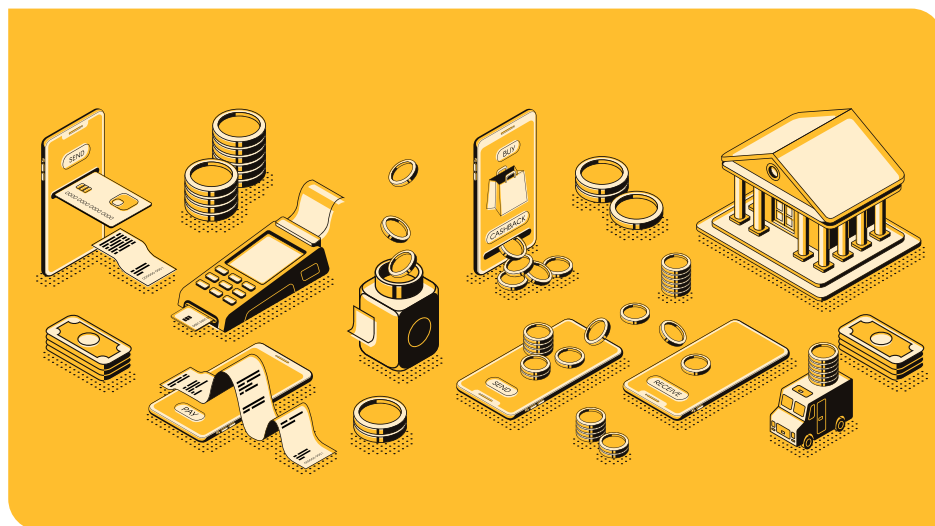
Since lockdown, NS&I has taken in more money than in the previous three years combined, so it's cutting rates to stop savers beating down its door. The cuts are likely to have a ripple effect on savings rates across the market.

A consumer survey conducted by Findoutnow on behalf of AJ Bell found that 43% of NS&I savers intend to respond to the rate cuts by moving their cash elsewhere. A quarter intend to move to a bank or building society, and a further 5% plan to switch over to a cash savings hub. The latter provide access to savings products from a range of competitive banks and building societies, all through one online account.

Stocks and shares are also on the radar for some NS&I investors, with 5% in the survey saying they intend to move cash into the market.

## WHAT SHOULD I DO WITH NS&I SAVINGS?

The best course of action if you're an NS&I saver depends



on which kinds of product you've got, and how much you value the security of having your money backed by the Government.

The table below shows the changes on variable rate products, and the best comparable rate available on the market as of 16 November

2020 (eight days before NS&I changed rates), according to Moneyfacts data.

## EASY ACCESS ACCOUNTS AND ISAS

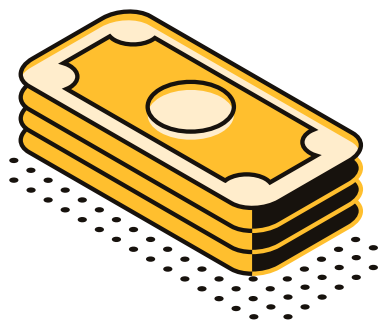
NS&I is now be offering significantly lower interest on its three easy access products – Direct Saver, Income Bonds

NS&I rate comparison

Product	Old NS&I AER (as of 16/11)	New NS&I AER (from 24/11)	Moneyfacts best buy	Extra annual interest switching to best buy on £50k
Direct Saver	1%	0.15%	0.75%	£300
Investment Account	0.80%	0.01%	0.75%	£370
Income Bonds	1.16%	0.01%	0.75%	£370
Direct ISA	0.90%	0.10%	0.65%	£275
Junior ISA	3.25%	1.50%	2.95%	£145 (based on £10k)
Premium Bonds	1.40%	1%	0.75%	-£125

Source: AJ Bell, NS&I, Moneyfacts

and the Investment Account. Savers could make hundreds of pounds more a year by switching to another provider with more favourable rates.



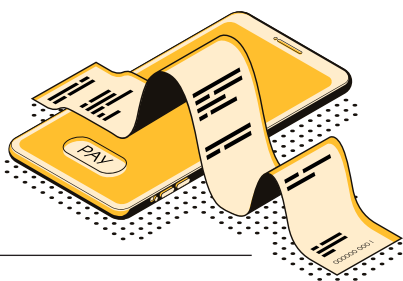
### PREMIUM BONDS

There's a hefty cut to the interest rate on the Premium Bond prize pool, but it remains higher than the Moneyfacts best buy for easy access accounts right now. On top of that it's tax-free, so anyone who's used up their personal savings allowance would need to get an even higher rate from a standard taxable account to match the post-tax interest from Premium Bonds.

Unlike a traditional savings account, Premium Bond interest is not distributed evenly, so you may get more or less than the interest rate applied to the prize pool, depending how lucky you are.

### FIXED TERM PRODUCTS

NS&I also offers fixed term products which are affected by the interest rate cuts, namely Guaranteed Growth Bonds, Guaranteed Income Bonds and Fixed Interest Savings



Certificates. Once again rates are being cut to way below comparable accounts available in the rest of the market.

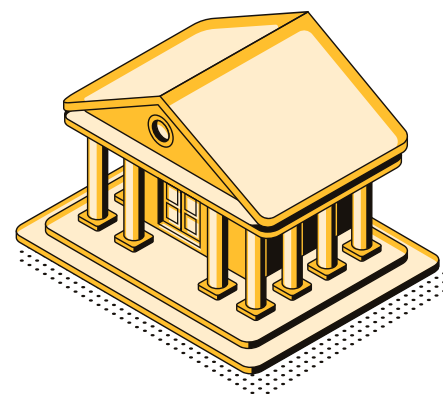
If you hold one of these products, the interest won't drop until it matures, at which point you can roll over into a new term, but at the new, lower rates.

For those who hold products maturing in the foreseeable future, for the time being you can get better deals by switching your cash elsewhere. The catch is that NS&I is no longer offering these products to new customers, so if it raises rates in future, savers won't be able to switch back.



For Guaranteed Growth Bonds and Guaranteed Income Bonds, this is probably not a huge issue, but the interest on Fixed Interest Savings Certificates is tax-free, so there may be some value in keeping your cash there simply because of the tax break. This will depend on your personal tax situation, in particular how much of your personal savings allowance you are using, as annual interest payments up to the first £1,000 are tax-free, falling to £500 for higher rate taxpayers and nil for additional rate taxpayers.

In addition if you have some spare ISA allowance which you won't otherwise use, then there is the possibility of taking the matured cash from Fixed Interest



Savings Certificates and putting it into a cash ISA paying better rates of interest, which will also be tax-free.

### SECURITY

Savers must consider the high level of financial security provided by NS&I, which is backed by the Treasury. Commercial banks and building societies don't have quite the same level of protection, though the Financial Services Compensation Scheme covers deposits up to £85,000 in the unlikely event of their bank going bust.

This limit applies per person and per banking licence – for instance HSBC owns first Direct, and so they are treated as the same bank for the purposes of the compensation scheme limit.

In practice, most savers can spread their eggs across enough banks and building societies without breaching the £85,000 limit in any single one.

If you do have that much cash in the bank earning very little interest, it's worth considering whether the stock market might be more productive in the long term.

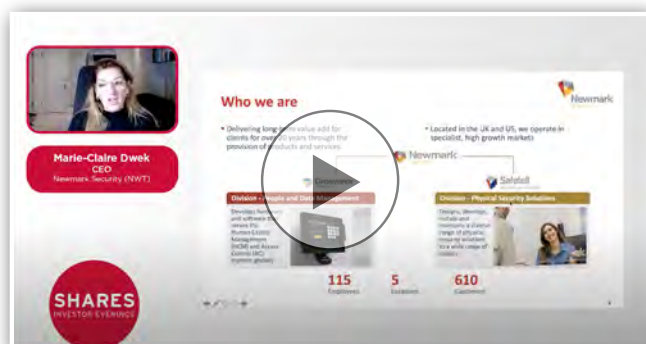


By **Laith Khalaf**  
Financial Analyst



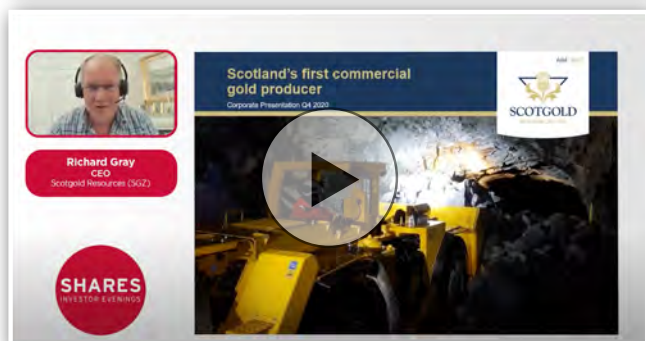


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# Why must I take advice to transfer a pension?

Tom Selby considers the case of a reader who wants freedom to move retirement savings

*I have a pension fund which, after several changes of ownership, is now with a closed-book life insurer. The policy offers an attractive guaranteed annuity rate but otherwise is very poor.*

*There is no drawdown option, the policy is not written in trust so there is no opportunity to shelter funds free of IHT, and the death benefit should I die before taking an annuity is only £27,000 versus the current fund value of £145,000.*

*I can transfer the funds to a SIPP provider though it seems that I am forced to first obtain the approval of an independent financial adviser. This is despite the fact that I am a top-rate taxpayer, an experienced investor and have more than adequate funds for my retirement even without this particular pension pot. Any suggestions? **Nick***



**Tom Selby**  
AJ Bell  
Senior Analyst says:

Pension reforms introduced in April 2015 gave savers with defined contribution (DC) retirement pots such as SIPPs greater flexibility over how they take a retirement income.

While previously only those with a secure guaranteed income of £20,000 or more could take as much or as little out of their pension as they liked when they reached age 55, the changes

opened up this flexibility to all retirement savers.

However, the Government also deemed it appropriate to place certain restrictions on transfers from pension schemes which provide a guaranteed retirement income.

Public sector workers who are members of unfunded defined benefit (DB) schemes were barred from transferring out altogether, presumably because the Government was worried about being bombarded with demands for transfer values.

Members of Local Government pension schemes (which are funded) and private sector DB schemes are allowed to transfer, but if their fund is valued at £30,000 or more, they must first obtain regulated financial advice. This is deemed necessary because the guaranteed pensions they are giving up are valuable and the decision to transfer involves complex choices.

It is not just DB schemes that are subject to this advice requirement – any pension deemed to include ‘safeguarded benefits’ worth £30,000 or more is also caught.

The most common are policies with a guaranteed annuity rate attached. This simply means that the product promises to pay a certain level of income from a pre-determined date set out in the policy documents.

Retirement plans that include Guaranteed Minimum Pension (GMP) rights are also caught by the advice requirement, as are those with ‘Section 9(2B)’ rights.

Both of these relate to people who contracted-out of the state pension, with GMP plans linked to employment between 6 April 1978 and 5 April 1997, and Section 9(2B) policies to 6 April 1997 onwards (contracted out under the ‘Reference Scheme Test’).

There is no sidestepping this advice requirement, so if you do decide to transfer it’s worth spending time going over the decision with your adviser.

The rules only require you to take advice, meaning you do not necessarily need a positive recommendation in order to transfer.

## DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to [editorial@sharesmagazine.co.uk](mailto:editorial@sharesmagazine.co.uk) with the words ‘Retirement question’ in the subject line. We’ll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you’re unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

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# The importance of company management when stock picking

Judging a company's management requires a different skill-set to analysing the underlying business

**I**nvestor Warren Buffett once said 'I try to invest in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will.'

He was referring to newspaper businesses in the 1960s where often a single dominant title held a monopoly position, which meant the economics were so strong it didn't matter who was in charge.

In later years he put much greater store in buying wonderful businesses with a strong management team.

'The important thing we do with managers, generally, is to find the .400 hitters and then not tell them how to swing,' Buffett said, referring to the baseball statistic considered to be an elite standard.

The truth is that all businesses are run by people and investors rely on senior management to make sensible decisions and be accountable for their actions.

Key qualities for investors are integrity and competency. Without the former it is impossible or unwise to rely on management communication and without the latter the stewardship of the business is probably on shaky economic grounds.



Stewardship is important in this context because legally shareholders own the company while management 'steer the ship' in the interests of owners. Conflict between stewards and owners can be disastrous for shareholders over the long run.

### COMMUNICATION MATTERS

The tone and content of management communication is key to understanding how they view shareholders. For example, Buffett has said his approach to writing annual reports is to provide information that he considers pertinent to judging performance and which he would expect to read if the roles were reversed.

If done well this approach provides all the necessary information about a company to allow the average investor to assess the viability of the business and its future direction.

A good way of building up a picture of management is to read everything they publish including regulated news announcements, presentations and annual reports.

One small but important point to make is that the clearer an annual report is written and the better understanding you have of how the business works after reading it, the better the quality of management.

The annual reports written by Henry Engelhardt who co-founded and ran insurer **Admiral (ADM)** for many years are a good example of an informative and engaging style of communication.

Also, it might not seem obvious but reading older reports can provide valuable clues about management behaviour. For example, look for previously announced investment plans to see if they were actioned. You might discover projects that were mentioned one year mysteriously disappear in the next review.

## GAUGING CREDIBILITY

Another key to gauging management credibility is to see if prior judgements about future events were borne out by actual events.

Generally speaking, better quality managements 'tell it like it is' without offering excuses and have a tendency to under-promise and over-deliver.

A good example is clothing retailer **Next (NXT)** which has built a well-earned reputation for over delivering against expectations.

Chief executive Simon Wolfson writes clearly and explains the risks and opportunities facing the company so that investors aren't negatively surprised by future events.



Next's chief executive Simon Wolfson is highly rated as a manager

In Next's case it isn't just about providing an accurate, honest assessment, but executing well thought-through plans.

## LOOK FOR RED FLAGS

It might seem unnecessary but checking the career history of top management can sometimes uncover patterns of behaviour which may prove helpful in

building a rounded picture of ability and integrity.

Twenty years ago, Gaston Bastiaens the chief executive of Lernout & Hauspie, a European dot-com darling and technology leader in speech recognition, was arrested and prosecuted for accounting fraud along with other senior executives.

A closer look at his career would have revealed that before joining Lernout & Hauspie, Bastiaens oversaw Apple's Newton personal digital assistant project which failed spectacularly when only 50,000 devices were sold in the first three months.

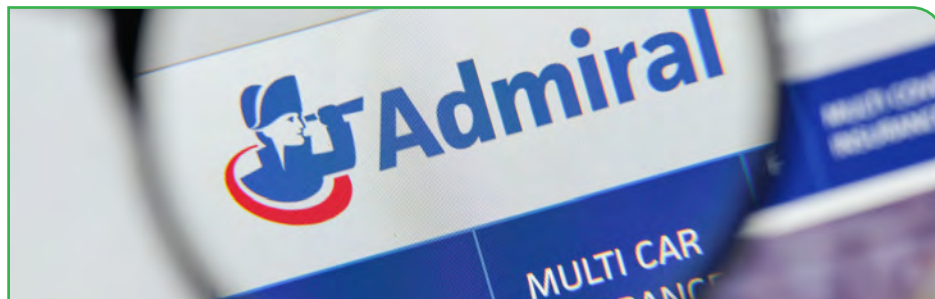
Prior to Apple, Baestiaens was president of US company Quarterdeck and began an ultimately unsuccessful series of acquisitions and the company was eventually acquired at a fraction of its former value.

## MAKING A JUDGEMENT

Ultimately judging the quality of management is not an easy task, but it is possible to build up a fair picture by using publicly available information.

Individual investors aren't necessarily at a disadvantage compared with professional fund managers who get access to management because there are quite a few funds that deliberately shun meetings.

The reason is that CEOs tend to be skilled communicators and good salespeople and some fund managers don't want to be unduly swayed.



**Former CEO Henry Engelhardt was praised for the way he communicated with Admiral shareholders**

'I would sum up all our results since 2000 as being akin to a seedless watermelon: tasty and refreshing but somehow you always wonder "how can that work in the future?"'

'Every year Admiral's customer growth and profit growth always seems to take people a bit by surprise.'

'Despite the fact that we've prospered in good economic times and bad economic times; that we've prospered when

prices for car insurance were on the rise and when they weren't; that we've prospered even allowing for investment in new operations outside the UK; and that we've done it all organically, without any acquisitions.'

'Despite this history we seem to surprise people when we pop up out of the ground each spring with better results than the year before.'

**Henry Engelhardt, March 2016**



By **Martin Gamble**  
Senior Reporter

# SHARES

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Executive Chairman

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**TRACKWISE**  
CONNECTING TECHNOLOGY

**TRACKWISE DESIGNS**  
Philip Johnston, CEO

Trackwise Designs is the manufacturer of printed circuit boards. The company's circuits are used in RF/ antenna and lightweight interconnect products, across multiple market sectors and applications.



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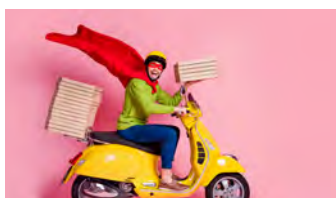
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## KEY ANNOUNCEMENTS OVER THE NEXT WEEK

### Full year results

**27 November:** Benchmark. **30 November:** Associated British Foods. **1 December:** Gooch & Housego, Hyve, Urban&Civic. **2 December:** Avon Rubber, Future, Ixico, Stock Spirits. **3 December:** AJ Bell, Caretech, Countryside Properties, Oxford Metric, Paragon Banking, Tritax Eurobox.

### Half year results

**27 November:** Carclo, Harbourvest Global Private Equity. **30 November:** Civitas Social Housing, DiscoverIE, DraperEsprit, Foxtons, Omega Diagnostics, Victoria. **1 December:** Bilby, Iomart, Mercia Asset Management, Sosandar. **2 December:** Augustum Fintech, Loungers.

### Trading statements

**27 November:** Reach.

## WHO WE ARE

<b>EDITOR:</b> Daniel Coatsworth @Dan_Coatsworth	<b>DEPUTY EDITOR:</b> Tom Sieber @SharesMagTom	<b>NEWS EDITOR:</b> Steven Frazer @SharesMagSteve
<b>FUNDS AND INVESTMENT TRUSTS EDITOR:</b> James Crux @SharesMagJames	<b>SENIOR REPORTERS:</b> Martin Gamble @Chilligg Ian Conway @SharesMaglan	<b>REPORTER:</b> Yosof Farah @YosofShares
		<b>CONTRIBUTORS</b> Laith Khalaf Russ Mould Tom Selby

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

**CONTACT US:**  
support@sharesmagazine.co.uk

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**PRODUCTION**  
Head of Design  
Darren Rapley  
Designer  
Rebecca Bodi

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THIS WEEK: 15 PAGES OF BONUS CONTENT

ALLERGY THERAPEUTICS

ALLIANCE PHARMA

BANGO

ELECO

OPEN ORPHAN

TRACKWISE

# SHARES

SPOTLIGHT

*Growth &  
Innovation*



INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

ISSN 2632-5748





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# Introduction

**W**elcome 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.

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](#).



# Understanding oligonucleotide treatments

## How are companies using oligonucleotides to develop novel treatments for diseases?

Nucleotides are the building blocks of DNA and RNA, made up of a five-carbon sugar, phosphate group and nitrogenous base. The sugar and the phosphate group together form the backbone of the DNA or RNA. The nitrogenous bases form hydrogen bonds to other bases, constructing the double helix in the case of DNA and other structures in the case of RNA.

These oligonucleotides sometimes control the expression of genes in the cell and this function is used by oligonucleotide drugs to affect protein expression levels.

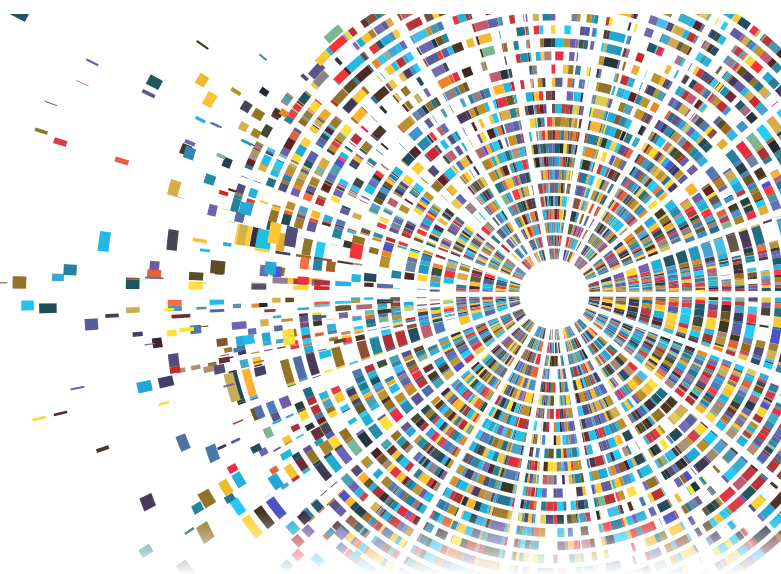
As a result, they can be used to prevent the expression of mutated proteins associated with genetic disease or to reduce endogenous proteins for other therapeutic effects.

### HOW DO NUCLEOTIDE DRUGS TARGET MRNA?

When a gene is read, the information held in DNA is transferred to messenger RNA (mRNA) via a process of transcription. This mRNA strand is subsequently translated into proteins.

The first type of nucleotide-based drug developed was antisense technology, which uses a single-stranded oligonucleotide to bind to an mRNA and prevent it from being translated into protein. Antisense drugs do this by binding so tightly to the mRNA that they constrict it, preventing it from physically interacting with the mRNA translation machinery (the ribosome).

Antisense drugs also achieve gene suppression by triggering RNase, an



“Silence Therapeutic’s technology and know-how in the nucleotide space is central to its investment case. It is one of the original pioneers in nucleotide-based drug design and this legacy has been recognised by other drug developers.’ Edison Investment Research”



enzyme that cleaves the connection between mRNA and DNA. RNase H-mediated degradation has been shown to reduce mRNA protein expression by more than 80%.

The single-stranded nature of antisense technology increases its molecular instability, requiring antisense therapeutics to go through extensive modification to improve their chemical properties.

#### WHAT IS THE siRNA PATHWAY?

Small interfering RNAs (siRNAs) are a different oligonucleotide technology that uses short, double-stranded RNA hairpins to trigger the degradation of targeted mRNA molecules. These siRNAs bind to an mRNA and recruit argonaute proteins that degrade the complex.

The advantage of this approach is that the double-stranded nature of the drugs means they require less chemical alteration compared to antisense technology.

However, this comes at the cost of cell penetration, requiring delivery systems,

including viral vectors or liposomes. For example, the siRNA nucleotide drug Onpattro is encapsulated in a lipid nanoparticle.

#### 2020 ACTIVITY

There has been a good deal of recent activity in the clinic for oligonucleotide treatments.

Recently, the FDA approved a new drug application from NS Pharma for Duchenne muscular dystrophy for viltolarsen, while in March 2020 Dynacure dosed the first patients in its Phase I/II study on DYN101 for centronuclear and myotubular myopathies.

In January 2020, Akcea released positive top-line results for its drug AKCEA-ANGPTL3-LRx in Phase II trials, which is currently targeting hypertriglyceridemia, Type 2 diabetes and non-alcoholic fatty liver disease.

Around the same time, Ionis Pharmaceuticals (which owns a majority share of Akcea) announced that its treatment for Alexander disease, ION373, received orphan drug designation from the European Medicines Agency (EMA). Alexander disease is a genetic illness that produces abnormal

protein deposits.

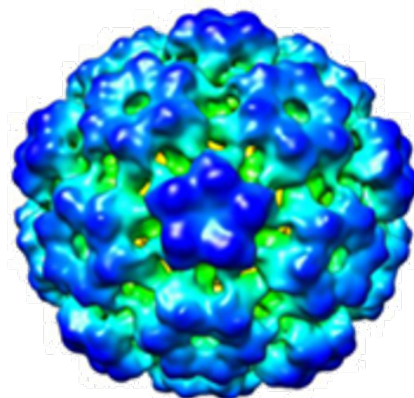
Also in 2020 AIM-quoted **Silence Therapeutics (SLN:AIM)** has continued to advance both of its wholly owned product candidates, SLN360 for the treatment of cardiovascular disease associated with high Lipoprotein(a), or Lp(a), levels and SLN124 for the treatment of beta-thalassaemia and myelodysplastic syndrome (MDS).

The company secured a significant collaboration with AstraZeneca to discover and develop siRNA therapeutics for up to 10 targets in cardiovascular, renal, metabolic and respiratory diseases.

- Upfront cash payment of \$60 million and an equity investment of \$20 million.
- Up to \$400 million in potential milestones for each target plus tiered royalties.

*This article is based on a report produced by Edison Investment Research. Other Edison Explains and thematic research is available [here](#).*

## Allergy Therapeutics branching out with new products in new markets



[www.allergytherapeutics.com](http://www.allergytherapeutics.com)

**Allergy Therapeutics (AGY:AIM)** is an AIM-listed biotechnology company with a growing, profitable, European commercial business and blockbuster potential in its pipeline.

It develops, manufactures and sells market-leading, short course, or ultra-short course treatments for allergy sufferers, targeting a range of allergens from grass to house dust mite, with a turnover of around £80 million.

Competitors in the market require 12-15 injections and 50-100 injections in Europe and US respectively. Oral treatments do exist, but require a tablet to be taken every day for three years to be effective.

Alongside developing a potential vaccine for peanut allergies (a market worth \$5 billion to \$8 billion), the company is developing products for the broader US allergy market, worth \$2 billion to \$3 billion, and has recently expanded its research beyond the allergy field to explore vaccines targeting solid cancers and asthma.

### STRATEGY AND OPPORTUNITIES

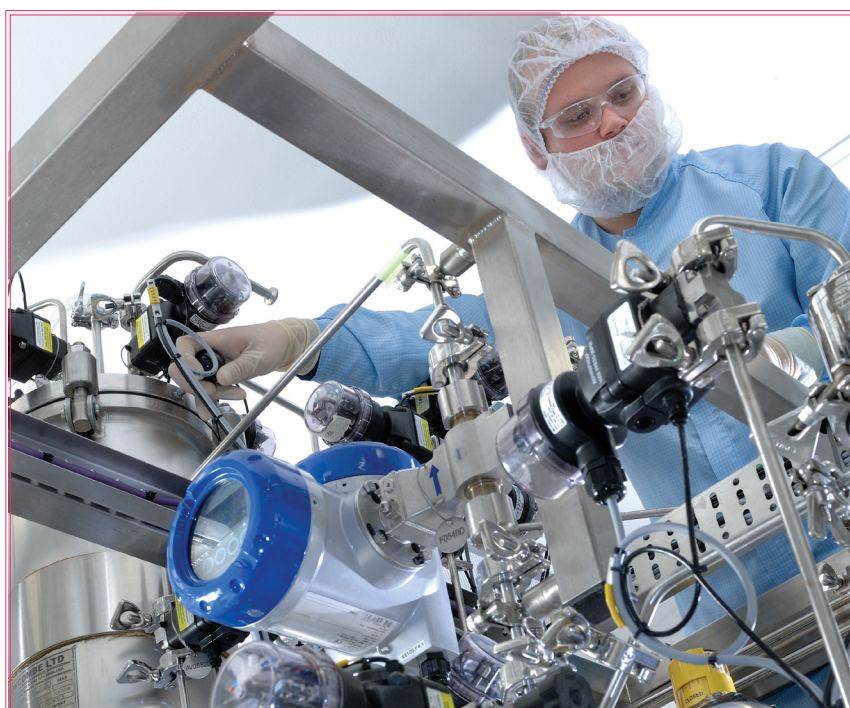
The business has a three-part strategy: Trading business, pipeline and US market.

#### Trading business

This business, which is mostly in Europe, has grown at an average rate of 9% per year over the last 21 years. It has a turnover of £78.2 million and an operating profit before

R&D of £14.2 million (2020 figures). Some of the products sold have marketing approval (Pollinex and Venomil) while others are in trials to gain approval (Pollinex Quattro).

With further approvals and new products coming to market, including an oral treatment, Immunobon, developed to replicate the reduction in incidence of allergy as seen by those who





live on a farm with livestock (the so-called 'farm effect'), the company expects to continue growing strongly in Europe, keeping the company well-funded to develop its pipeline.

### Pipeline

The company's potential peanut allergy vaccine, which uses novel virus like particle (VLP) technology to enhance the body's immune response by making the peanut allergen resemble an invading virus, is the most anticipated product in the company's pipeline. There is only one approved immunotherapy which is powder based and only increases tolerance, unlike the Allergy Therapeutics' product which could potentially cure patients.

The potential market opportunity is estimated at \$5 billion to \$8 billion. Allergy Therapeutics' product has shown success in pre-clinical trials and is due to start Phase I safety trials in the US in the second half of 2021. The value of a business that can achieve approval can be seen in the fact that a company that produced a first-generation peanut powder product was recently sold to Nestlé for \$2.8 billion.

Allergy Therapeutics has also recently made a strategic step into the wider immunology market, exploring the potential of the same VLP technology to treat solid state cancers, asthma, atopic dermatitis and psoriasis.

This approach has the potential to treat patients in a shorter period and at a lower cost than current treatment options. For products that treat illnesses outside the scope of the company's current commercial team, Allergy Therapeutics



intends to look to partner the clinical development of these products as research progresses.

### The US market

The US allergy field is a huge untapped market that gives Allergy Therapeutics the feel of a high-potential biotech stock. The Company will run a Phase III field trial of its potential immunotherapy for grass allergies in 2022, which, if successful, would open up a market worth \$2 billion to \$3 billion for all seasonal allergies.

The field trial will start in the autumn of 2022, with results available the following year, allowing for potential US regulatory approval. Beyond the grass product, the Company has both ragweed and tree allergy products in its pipeline which are primed for the same regulatory process to reach the market. Despite being at an earlier stage of development, the company's peanut product has even greater potential if developed for the US market.

Currently, this market is serviced by around 5,000 allergists who use techniques that require patients to have 50-100 injections over the course of two to three years. It is no wonder that data show just 16% complete treatment.

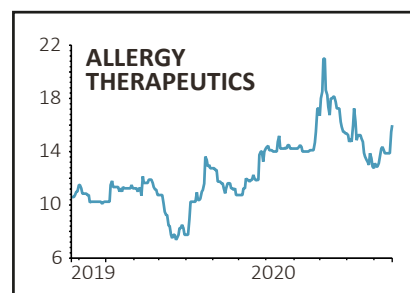
Even worse, 50% of those who visit an allergist seeking help do not start treatment due to the long treatment

cycle required. The allergists get paid per injection, meaning the approved oral treatments on offer have made little headway with little profit incentive to be prescribed. The US medicines regulator, the Food and Drug Administration (FDA), has, however, recently tightened restrictions on the laboratories that allergists use to mix their injections, causing significant extra costs.

Combined with health insurance companies reducing their reimbursement from all injections to 'maintenance', this is expected to strengthen the appeal of a product such as Pollinex Quattro. With a strategy focused on short and ultra-short course treatments, Allergy Therapeutics believes it could provide a significantly enhanced patient experience in the US.

### SUMMARY

Alongside a profitable business which continues to grow and innovate, Allergy Therapeutics has great potential in new markets and with new products.



# Alliance Pharma continues success in consumer healthcare

[www.alliancepharmaceuticals.com](http://www.alliancepharmaceuticals.com)



Peter Butterfield, CEO

Half year results from **Alliance Pharma (APH:AIM)**, issued in September 2020, underlined the group's resilience during the Covid-19 pandemic. At the heart of this was a strong performance from the group's consumer healthcare portfolio.

With further signs of recovery in the group's key markets, Alliance expects trading to continue to improve in the months ahead thereby propelling the group on its growth trajectory.

## CONSUMER HEALTHCARE INCREASINGLY IMPORTANT

Consumer healthcare has become an increasingly important area for Alliance over the past few years and now accounts for over two-thirds of group revenues. It's these brands that have been the group's key growth driver.

The geographical spread of Alliance's revenues has underpinned the group's resilience during the Covid-19 pandemic. Alliance has a substantial business in the fast-growing Asia Pacific region, a strong presence in Europe, Middle East and Africa (EMEA) and a direct presence

in the US.

Alliance's consumer healthcare portfolio has been built up through an ongoing programme of acquisitions, a key element of the group's strategy. Post-acquisition, the group's focus is on delivering organic growth through investing behind the brands utilising its consumer marketing expertise.

Arguably the best example of this is Kelo-cote, a treatment for scar reduction, which Alliance acquired at the end of 2015. At that time, Kelo-cote had sales of just £8 million a year whereas by 2019 Alliance had grown the product's sales

to more than £30 million. 'It's a real success story,' says Peter Butterfield, Alliance's CEO, 'It also highlights that the Alliance growth story is about both organic growth and acquisitions.'

## ON THE HUNT FOR ACQUISITIONS

Kelo-cote was the fastest growing Top 5 Global Scar Treatment brand in 2019. In China alone, the scar treatment market is growing at 29.6% a year, presenting a significant opportunity for Alliance.

In its half year results announcement, Alliance



stated that it was actively looking at further acquisition opportunities.

Peter Butterfield says: 'The larger, strategic acquisitions are likely to be in consumer healthcare in geographies where we already have a presence. We continue to see plenty of opportunities currently in terms of deal flow, in part because of the continuing consolidation in the healthcare industry.'

Alliance's consumer healthcare acquisitions are carefully targeted. 'The products we're particularly interested in should be clinically valuable to patients, have a good data package behind them and meet a real patient need. They tend to be established products with brand heritage and durable sales which have benefited from investment historically to build the brand,' says Peter Butterfield.

Alliance's most recent acquisition, of the medicated anti-dandruff shampoo Nizoral in the Asia-Pacific region, is an example of such a clinically valuable product with a strong brand heritage. Acquired from Johnson & Johnson in 2018 for £60.0 million, Nizoral represents another significant growth opportunity for Alliance.

### REVITALISING HERITAGE BRANDS

In contrast to branded pharmaceuticals, which tend to have a finite life due to genericisation or the development of newer treatments, the commercial life of consumer healthcare products can potentially continue indefinitely.

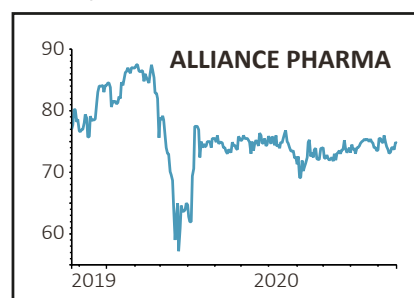
Alliance's oldest brand, Ashton & Parsons, is more than 150 years old and has

been revitalised by Alliance to deliver consistent double digit growth. 'This was a product that had no sales when we acquired it back in 2011, but the brand heritage was really strong,' says Peter Butterfield. 'We got it back into manufacture and through continued marketing efforts, we've seen the brand go from strength to strength in the UK market over the past few years.'

Alliance's robust performance during Covid-19 reflects the underlying strength of its business both financially and operationally. With an increase in underlying profits, strong cash generation and payment of an interim dividend, the half year results show the group to be well-positioned to deliver on its medium term growth objectives which

include doubling the size of the business in the next five years.

The continuing development of Alliance's consumer healthcare business is central to these ambitions. 'We're looking quite closely at the US at the moment,' says Peter Butterfield. 'We've got a great business in the US currently in our head lice treatment Vamousse, and we'd like to develop our presence in that region further by acquiring the right brand, portfolio or corporate.'





# Internet giants join the **Bango** virtuous circle to power growth

[www.bango.com](http://www.bango.com)



**Bango (AIM: BGO)**, the global platform for data-driven commerce, is bucking the trend during the Covid pandemic. It is continuing its global expansion, delivering record revenue growth, and increasing the number of global partners using the Bango Platform.

Bango technology is deployed in over 40 countries by some of the largest internet businesses in the world, including Amazon, Google, and Microsoft. This vast, global footprint positions Bango as a Brexit-proof, Covid-proof growth business.

## THE BUSINESS MODEL

At the heart of its technology, Bango generates data insights that help online merchants to acquire more paying customers. The Bango Platform then processes online payments made by these new customers, which produces more data insights, helping the merchants attract even more paying customers – the Bango virtuous circle of commerce.

The global lockdowns of 2020 have accelerated the shift towards online consumption,

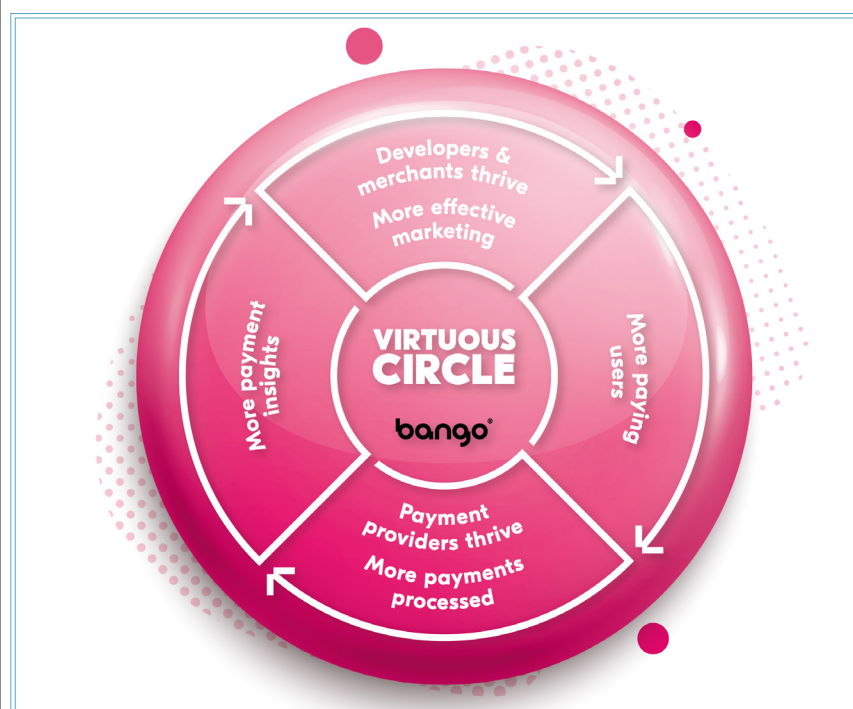
with more people browsing and buying online than ever before. With so many people now active online, it has become more important for merchants to deploy their marketing budgets wisely.

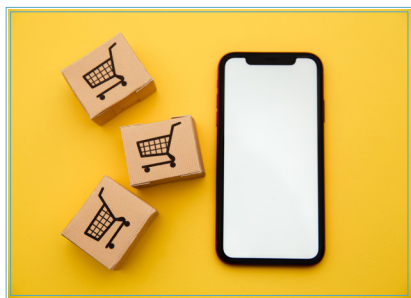
They need to efficiently identify where - in this surge of online traffic - paying customers can be found. This increasing demand for insights from marketers and advertisers

wanting to monetise customers online, and the switch by consumers to online spending, have together created a great platform for Bango to supercharge its growth.

## A PAYMENTS PLATFORM FIRMLY ESTABLISHED

Bango processes billions of dollars of payments from hundreds of millions of





users worldwide, primarily from spending in apps and from customers purchasing subscriptions to a wide variety of products and services.

The data insights Bango generates from these payments are provided to merchants through Bango Marketplace. Just as Google allows marketing to be targeted based on what people 'search for' and Facebook based on what people 'like', Bango Marketplace allows marketing to be targeted based on what people actually 'buy'.

Since its launch last year, Bango Marketplace has made substantial progress, with over 1,600 app developers now registered and engaged with the platform compared to 200 at the end of 2019. Bango Marketplace offers payment 'audiences' in 7 out of the top 8 countries ranked by app store revenue. In recent months, it has expanded across Asia with new partnerships announced in China, Hong Kong, Taiwan, India and Indonesia.

### THE RAPID RISE OF 'STAY AT HOME' COMMERCE

After just a week of the first UK lockdown earlier this year, Bango's analysis revealed double-digit percentage growth in end user spending on online goods and services. The growth in demand for streaming, gaming, food delivery and online content presents a compelling

opportunity for merchants to focus their marketing on paying customers.

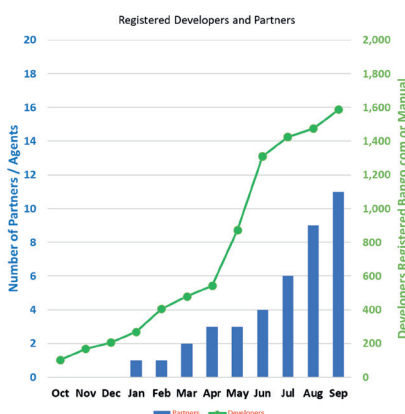
The payments insights Bango offers are particularly popular with app developers and publishers of online entertainment and content. By applying these insights to their online marketing campaigns, 'digital merchants' have been able to acquire up to nine times more paying users than those using conventional online advertising. Clearly Bango could gain significantly from the continuing growth in online commerce.

### VAST ROOM FOR GROWTH COMPOUNDED BY INVESTOR CONFIDENCE

Insulated against key global risks such as Covid lockdowns and local economic turmoil such as Brexit, Bango could be a strong growth play in uncertain times. The recent investment in Bango by South Korean 'big data' business NHN, has further strengthened a partnership that opens-up global opportunities for both companies, and highlights Bango's strong relationships in the Asia Pacific region. NHN initially bought a 4.7% stake,

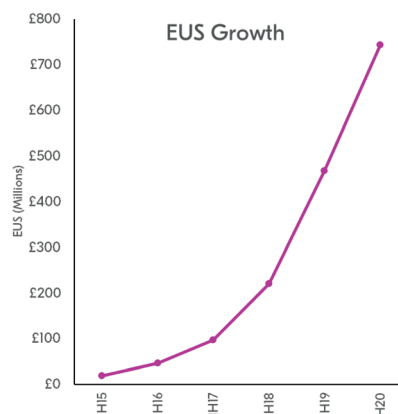
### Bango Marketplace gaining momentum

Increasing developer engagement  
Proven results



### Exponential payments growth

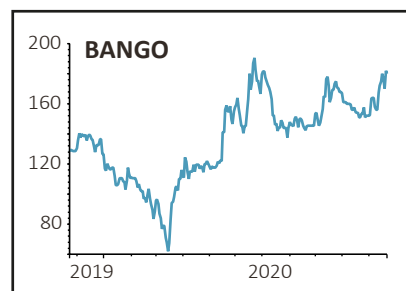
Continued EUS growth  
740M in 1H2020, on track for £2B



which they have subsequently increased to over 6%.

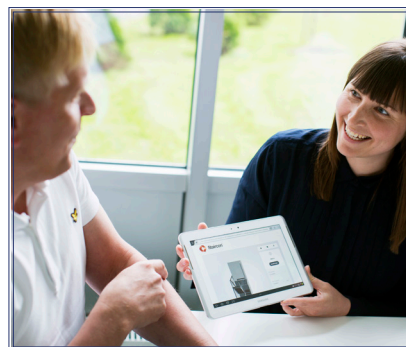
The Bango growth story is as impressive as the resilience of its market position and business model. For six consecutive years, Bango has attracted exponential growth in end user spend. Despite global business challenges including Covid and Brexit, the value of this spending is set to double again, reaching about £2 billion this year.

The business is highly cash generative, supported by a robust and cost-efficient operating model, which provides a strong base for the on-going investment needed to build a true global leader. Pairing this with record revenue growth and a market opportunity that is set to grow much bigger, there is ample scope for Bango's expansion to continue apace.



## Eleco: building on technology

[www.eleco.com](http://www.eleco.com)



**Eleco (ELCO:AIM)** is a software specialist providing solutions to the architectural, engineering, construction and owner/operator (AECO) sectors.

The company has continually innovated its service offering, evolving from a manufacturer of lighting and construction components, to a provider of software solutions and related services.

Today, it trades under three operating brands – ElecoSoft, ESign and ActiveOnline – from centres of excellence in the UK, Sweden, Germany, the Netherlands and the USA.

### CUSTOMER-DRIVEN CHANGE

Eleco enables companies to de-risk and drive efficient operations through its software solutions which are enhanced by professional training, technical support and consultancy services.

The group has built long-standing and trusted relationships by working closely with its customers to prioritise new features and developments.

By committing 13% of its revenue to product development, Eleco reported in its interim results that 57% of its revenue is recurring which demonstrates strong customer

retention. Its clients include a significant number of the UK, Swedish, German and Dutch main construction contractors as well as housebuilders, retailers and product manufacturers.

During the first half of this year, and in addition to its strong foothold in construction, Eleco increased its maintenance management software market share into sectors including food and drink manufacturing, health and social care and pharmaceuticals.

**The board of Eleco announced on 16 November 2020 that its Powerproject software had been awarded 'Project Management Software of the Year' for the seventh consecutive year at the UK Construction Computing Awards 2020 ('The Hammers').**







### DYNAMIC APPROACH

Eleco's agile development, diverse product range, and broad spread of customers across industries and regions has mitigated the impact of Covid-19.

At the start of Covid-19 lockdown restrictions employees rapidly transitioned to virtual working, made easier by the fact that communication systems were already in place.

Its Elecosoft business supported the UK construction planning community during a difficult period by providing complimentary Powerproject

Eleco continues  
to work closely  
with its customers  
and partners to  
deliver products  
and services that  
meet the needs  
of the industries  
it serves

training and temporary software licences to planners who had been placed on furlough. It also supported construction customers by offering complimentary webinars, which dealt with construction delays, pauses and using its software to support the reopening of construction sites.

### NEW FACES AT THE FOREFRONT

Jonathan Hunter, the former COO, was recently appointed as Interim CEO. Having worked in the business for over a decade, Jonathan is acutely familiar with the operations and is well placed to lead the business going forward.

The Chairman, Serena Lang, has a long career of software and technology from her distinguished and multi-faceted career including the roles of VP Transformation at **BP (BP.)** and running the highly profitable North Europe and Africa division of the international software and process business of Invensys.

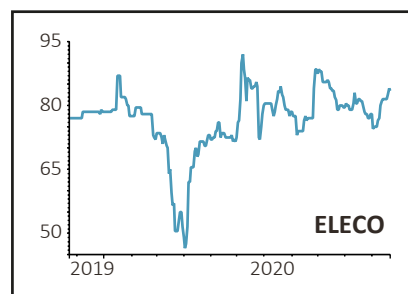
### MOVING WITH THE MOMENT

Eleco is a company

unafraid of change, having successfully transformed from engineering, design, and production into software solutions. And its cash generative, profitable business model has enabled the company to continue evolving amid the unique pressures of Covid-19.

High customer retention rates provide a stable platform for growth, and Eleco continues to work closely with its customers and partners to deliver products and services that meet the needs of the industries it serves.

The company has already increased its recurring revenue in 2020, and is planning further software releases in 2020/21 to increase its market presence across multiple sectors, while still supporting existing customers to grow their business.



# Open Orphan secures world-first Covid contract

[www.openorphan.com](http://www.openorphan.com)

**Open Orphan plc (ORPH:AIM)**, a leading player in the testing of vaccines and antivirals, is seeing record demand from large pharma companies to test new vaccines such as for RSV, Influenza, Covid-19 etc. This is because we are now entering a decade of exponential vaccine development so as to avoid future pandemics. We have had billions spent on oncology and gene therapy but close on nothing being invested in vaccine development during the last 30 years. To avoid the next pandemic, the world is now committing huge funds to vaccines development and as such Open Orphan is positioned to profit from this.

## UK GOVERNMENT CONTRACT

In recognition of its industry-leading position, Open Orphan's subsidiary hVIVO, was recently awarded a ground-breaking world first Covid-19 human challenge study model contract by the UK Government. The first phase of the contract has started and should be worth approximately £10 million to hVIVO with an expected finish date in May 2021, the UK Government has paid a £2.5 million up-front deposit for this contract and has also

paid three slot reservation fees of £2.5 million each, totalling £7.5 million to secure the first three hVIVO COVID-19 vaccine challenge studies.

The Human Challenge Programme, part of the government's Vaccines Taskforce, is a partnership between hVIVO, the UK Government, Imperial College London, and The Royal Free London NHS Foundation Trust. This ground-breaking news was picked up by almost every media company in the world featuring in over 4,000 articles.

The Human Challenge Programme work will be conducted by hVIVO at The Royal Free Hospital's 19-bed quarantine unit. hVIVO's existing 24-bed East London quarantine unit is booked out with traditional challenge studies for the coming twelve months. As such, conducting the Covid-19 challenge studies at The Royal Free, in London, provides additional capacity and will translate to increased revenue.

For the past 12 years hVIVO has solely operated from its East London quarantine unit and in addition to commencing challenge studies in the Royal Free London hospital going in to 2021 as part of the Vaccine

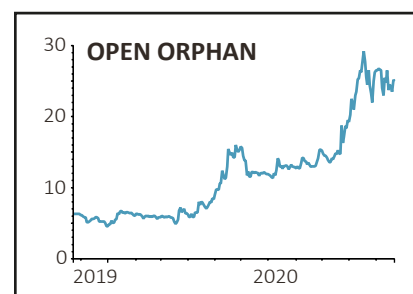


Task Force contract, the company is expecting to manage an additional facility, either in Europe or North America, so as to facilitate the huge pipeline of vaccine challenge study trials.

## HVIVO DATA & WEARABLES

hVIVO already has the world's largest database of infectious disease progression data from its 20-years of challenge study work. This data has become of interest to the world's leading technology and wearable companies and Open Orphan is now focusing its efforts to commercialise this unique data.

If you are interested in being contacted and provided with details about future Covid-19 challenge study research, please leave your contact details at [www.UKCovidChallenge.com](http://www.UKCovidChallenge.com). Further details on all aspects of our other challenge studies for Flu, RSV, etc, can be found at [www.flucamp.com](http://www.flucamp.com).



## Trackwise: enabling automotive and medical innovation

[www.trackwise.co.uk](http://www.trackwise.co.uk)

### Trackwise Designs (TWD:AIM)

is a UK manufacturer of innovative, specialist printed circuit products. Over the past 30 years, the company has earned a global reputation for delivery of high-quality printed circuit technology. Its products have a global reach, serving customers across Europe and North America.

Trackwise has two divisions - its Advanced PCB division and the IHT division. The Advanced PCB division incorporates its long-established radiofrequency business which services the telecoms market alongside the defence, medical and industrial controls markets. This division is expected to remain a solid foundation for revenues, but it is the company's Improved Harness Technology (IHT) which is the main driver of growth. This growth is underpinned by the acquisition earlier this year of Stevenage Circuits Limited (SCL), which released capacity at the main Tewkesbury site for additional IHT business.

Trackwise recently announced a major manufacturing agreement with a UK-based electric vehicles manufacturer, worth up to £38 million over the

next three years, representing a significant commercial milestone for the company. This agreement validated the acquisition of SCL, as well as demonstrating the considerable opportunity available in the application of its proprietary IHT to its target markets.

Improved Harness Technology is a multi-layer flexible printed circuit (FPC). FPCs were first developed as weight and space saving alternatives to conventional wire harnesses in the 1950s and have since grown into multibillion-dollar global industry. The application of FPCs in manufacturing has historically been constrained by size, as only shorter product lengths (typically 610mm) could be manufactured. This meant the market take-up of FPCs has been limited to usage in smaller devices and equipment, for example a mobile phone. IHT brings a solution to this problem, enabling the production of multilayer FPCs of unlimited length.

Consequently, Trackwise's technology brings with it huge potential benefits - IHT can be deployed wherever wire is used. It can be seen



as an enabling technology, providing the mechanism for considerable technological advances in some of the world's most valuable industries, applied for use in aircraft and electric vehicles wiring, as well as medical devices, scientific instruments, and consumer products. The company's vision is to provide the "interconnector" of choice to the world's innovators.

### IHT'S TARGET MARKETS

Trackwise is pursuing substantial opportunities for its IHT products in the targeted electric vehicles (EV), medical devices and aerospace sectors, as well as capitalising upon opportunities in other sectors.

As a light and flexible wiring harness that can be made to suit any length, IHT is already manufacturing harnesses suited to the battery modules





and battery packs of electric vehicles. The application of IHT to electric vehicles saves on part count and assembly time, leading to increased efficiencies during build processes. It also saves space and weight in the final product, enabling the vehicle to go further on a single charge and reducing vehicle emissions which reduces vehicle carbon footprint, validating IHT as a green technology.

The EV market is widely expected to be a growth market, and the UK government has pledged over £900 million to position the UK at the global forefront of ultra-low emission vehicle (ULEV) development, manufacture and use. Additionally, current Covid-related conditions are driving this market - Edison Investment Research reports demand for electric delivery vans is likely to increase as a result of the pandemic as consumers continue to prefer online shopping.

Trackwise's major product manufacture and supply agreement with a UK manufacturer of electric vans and buses signed in September 2020 is a commercial milestone for IHT, with the potential to be worth up to £5 million of revenues in 2021, with the expectation of increased revenues in 2022 and 2023 and a total value of up

to £38 million over the period. This deal places the company in a strong position to further take advantage of this market growth with first mover advantage regarding battery wiring harnesses.

The Medical Devices market is also seen as a major prospect for Trackwise, through the application of IHT within the distal electronics of catheter manufacture. The mechanical strength advantages, when compared with traditional wiring techniques, reduce manufacturing time and costs, deliver greater functionality and, with their flexing characteristics, can be included easily inside a catheter. As an indication of the opportunity available, a report published in July 2020 by 360 Market Updates stated that the global cardiac catheters market alone was worth \$7.4 billion in 2020, with predictions it will grow to \$8.4 billion by the end of 2026.

Trackwise is well positioned to respond to this demand for the ongoing miniaturisation of electronics and greater functionality within distal electronics, and its collaboration with these medical catheter customers on development leads the company to expect to convert some of these projects to production volumes in FY22. Whilst this work is still at the development stage, the final product has been delivered and has been proven to work effectively.

Although the focus remains on expanding opportunities across the three target markets (EV, medical devices, and aerospace), there are numerous other markets where IHT can be applied. Trackwise is currently fulfilling a number of varied, revenue-deriving projects

for the application of IHT to alternative markets, including pipeline leak detection and nuclear fusion. These market opportunities are considered on a case-by-case basis, and Trackwise is engaged in an increasing number of prospects around the application of IHT to other markets.

### AN EXCITING FUTURE

In the past 12 months, Trackwise has witnessed significant traction in IHT across the EV and medical devices market, as well as maintaining conversations with other manufacturers such as in the aerospace industry.

Looking to 2021, Trackwise expects to continue the momentum it has seen in the production of IHT at scale, building on the number of opportunities for the company and, as a result, the possibility of greater revenues from this IHT division. Most recently, Trackwise announced it has conditionally raised £12 million through an oversubscribed placing and subscription. The proceeds will fund a new UK manufacturing facility for IHT, allowing Trackwise to meet this anticipated increase in demand for its technology.

As conversations progress with manufacturers looking for space and weight-saving opportunities in their products, the year ahead is expected to be another one of strong progress in the IHT division.

