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RECOVERY AND INCOME POTENTIAL MAKE POLAR FINANCIALS STAND OUT

EVENLODE INCOME GOES FROM **HERO TO ZERO:** TIME TO WORRY?

When good news is bad news for investors and vice versa

Positive job numbers triggered market sell-off, while dividend-depriving tax hikes were applauded

We're in a situation where good news is being treated as bad news by the market and vice versa. While this can be a bit confusing to the casual investor, there is some logic to how stock markets are currently behaving.

Three bits of news in the past few weeks have triggered the opposite reaction to what you might expect at face value.

US jobs data was very strong for February, with the creation of 379,000 new jobs versus 166,000 additions in January and the loss of 306,000 positions in December.

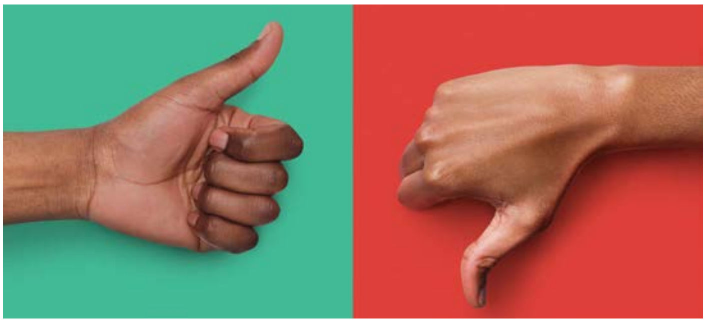
At first glance, this seems like good news because it means the state of employment in the US is improving and so we're on the right path coming out of the pandemic.

In reality, the jobs figures caused another wobble in the stock market as investors took the view that it strengthened the argument for the US Federal Reserve to raise rates sooner rather than later as the economic recovery is picking up pace.

At the UK Budget on 3 March, chancellor Rishi Sunak made two important announcements on company-related tax. He said the widely expected rise in corporation tax wouldn't happen for another two years. Sunak also said companies would be able to cut their tax bill by up to 130% for investments made in the business.

The market cheered both pieces of news even though they are both less attractive than you think. First, pushing up corporation tax from 19% to 25% means companies will have less profit after tax which could have a negative impact on dividends paid to shareholders.

Remember that the stock market is forward looking, and it won't be long until the higher tax rates will start to be priced in to stock valuations. The erosion of both earnings and dividend growth



are negative for investors, but one cannot help feel this factor has been ignored by large parts of the market.

As for the tax cuts relating to business investment, a lot of the commentary around the Budget applauded this action and said it would really help companies. However, if you dive into the Budget document, you'll see it says the tax cut is only applicable to investment in plant and machinery. A lot of people assumed it also covered intellectual property, such as technology research and development.

The chancellor's tax cut is only in place for two years, thereby creating a rush among companies to invest heavily in the near-term. From 2023, we'll not only have the big tax hike, but it is feasible to suggest the economic recovery could have peaked, certainly when you consider the OBR forecasts much more subdued economic growth from that year onwards.

Investors shouldn't be put off the market because everything is not what it may seem. It simply pays to keep an open mind and not be caught off guard because you've misread a situation.

By **Daniel Coatsworth** Editor

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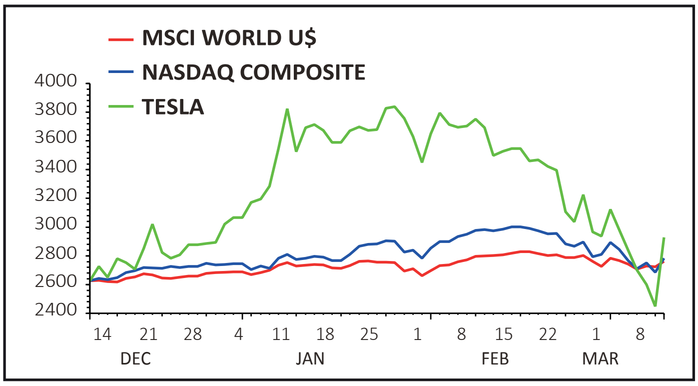
Markets look to shake off inflation-linked wobble

Tech stocks have been among the worst hit in recent weeks

As we write the bond and stock markets have stabilised after a period when fears over mounting inflation and an increase in interest rates saw fixed income yields spike and equities fall over.

Having reached a record high market close in mid-February the MSCI World index of developed markets then fell nearly 4% by 4 March. The slump has been more pronounced in the US technology-heavy Nasdaq Composite index which fell nearly 10% between mid-February and 8 March, before rebounding 3.7% on 9 March.



Some stocks like Tesla suffered badly – the electric vehicle manufacturer and bitcoin investor had slumped 31% from its recent record high before rebounding nearly 20% on 9 March. The popular ARK Innovation ETF, tracking a basket of Silicon Valley stocks, also sold off heavily.

The reason behind the downward moves in February and early March is that investors have been less willing to stomach the sky-high valuations technology firms have attained in an environment where interest rates are expected to rise.

Corrections can be a healthy thing, particularly if a market has become overheated – the question now is whether the recent rebound in many tech stocks can be sustained.

This would have significant implications for equity markets across the board given the dominance of technology in many geographic regions.

The big fallers in the Nasdaq correction

Company	% change since close 15 February 2021
Peloton	-34.5
Moderna	-32.8
Tesla	-31.0
Pinduoduo	-30.0
MercadoLibre	-29.5
Okta	-28.5
Zoom	-28.2
Ansys	-27.3
Docusign	-26.8
Baidu	-25.7

Source: SharePad. Data to 8 March 2021 market close

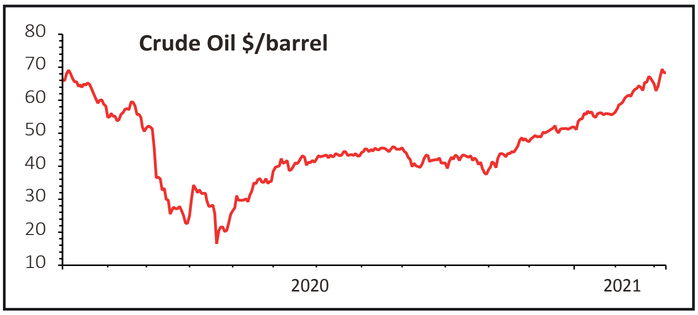
OIL PRICE SURGE

The FTSE 100's focus on the old world economy, with a heavy weighting to banks, mining stocks and oil companies, and its underperformance of other global markets heading into the latest correction, has insulated it from the worst of the recent volatility.

Oil prices surged in the wake of OPEC's decision not to boost supply on 4 March, extending the gains from the low point in April 2020 at the height of the pandemic – with attacks on Saudi Arabian oil facilities briefly driving Brent crude above $70 per barrel. The black stuff remains up more than 300% last April's lows with demand expected to benefit from a reopening of the global economy.

Several of the big investment banks have increased their forecasts for oil – for example, Goldman Sachs now expects $80 per barrel in the third quarter – and further price hikes could add to inflationary pressures and potentially crimp the Covid recovery.

Rising oil prices are effectively a tax on growth as they increase the costs of transportation, manufacturing and heating.



CHINA CONCERNS

Elsewhere in the commodity markets, the price of nickel – seen as a key metal in the electric vehicle revolution and recently trading at six-year highs – tanked almost 15% to $16,100 per tonne over two days in early March after a surprise increase in supply.

Chinese metal giant Tsingshan upended the market by starting production on a battery-grade form of nickel from low-grade ore, which could see it flood the market.

Stocks in China have taken a hit as the top advisory body to the country's government says it is still '30 years away' from being a manufacturing nation of 'great power'.

Despite being responsible for a third of the world's manufacturing output, former industry and technology minister Miao Wei, a member of the Chinese People's Political Consultative Conference, warned on 7 March that China is still heavily reliant on the US for high performance products like semiconductors, adding China's 'basic capabilities are weak' with the country running the risk of 'being hit in the throat'.

It clearly resonated with investors with the Shanghai Composite stock market index reacting with a 2.3% fall following the comments and the Hang Seng in Hong Kong falling 1.9%, compared to a 0.4% drop for Japan's Nikkei 225. Concerns are mounting that Chinese stocks are overvalued and due for a correction.

That comes as emerging market assets more broadly have suffered their first wave of outflows since October with fears over a rise in the cost of borrowing. Higher yields in developed markets dent the allure of emerging market assets, which typically have higher returns to compensate for higher risk. [TS, YF, MG]

COULD INFLATION BE A SHORT-TERM ISSUE?

Bond investors have been spooked by data which increasingly points to supply chain bottlenecks and longer lead times, increasing risks of higher inflation.

For example, the US ISM purchasing managers' index survey for February reported that prices paid were the highest since 2008 with aluminium, copper and chemicals leading the increase.

The big question for bond investors now is the sustainability of current supply shortages and whether the impending $1.9 trillion US stimulus programme will add to a trend of rising prices.

John Dizard at the *Financial Times* argues the supply chain problems are a classic case of the whiplash effect caused by retail inventories being run down at the beginning of the pandemic.

Covid-19 shutdowns and restarts disoriented supply managers who then ended up overstocking supplies to catch up with initial shortages. This had a concertina effect all down the supply chain.

If the February ISM non-manufacturing inventory sentiment reading is a good indicator, then upward pressure on prices may ease.
The survey showed that 19% of respondents reported inventories were too high, up from 10% in December.

Shares in estate agents soar since the Budget

They are being driven by new measures to support the property market

The chancellor's announcement last week of an extension of the stamp duty holiday until the end of June and a mortgage guarantee scheme starting in April have sent home-buyers into a frenzy.

The question facing investors in the UK's listed estate agents and property services firms is whether the rising demand will be a short-term or long-term trend.

The stamp duty holiday on houses up to a value of £500,000 was due to expire on 31 March, but the government extended the scheme.

The exemption stays at £500,000 for transactions expected to complete by 30 June in England and Northern Ireland; it then falls to £250,000 for transactions expected to complete by 31 September, after which it reverts to the usual threshold of £125,000.

Meanwhile, the mortgage guarantee scheme allows buyers with a deposit of just 5% to buy houses up to a value of £600,000 with the government underwriting some of the losses if buyers default. According to **Rightmove (RMV)**, 86% of the properties on its site have an asking price of £600,000 or less.

Rightmove experienced its busiest ever day on the day of the budget with site visits topping 9 million for residential properties as well as record searches for commercial property as firms look to expand. Estate agents also reported record enquiries as buyers rushed to take advantage of the new measures. [IC]


Company	Gains since Budget announcement (%)
Foxtons	20.5
LSL Property Services	9.9
Property Franchise Group	7.7
Purplebricks	2.9

Source: SharePad, data 9 March 2021

Domino's to give investors a bigger slice of excess cash

Management's capital allocation decisions can have a big impact on shareholder returns

PIZZA FRANCHISE CHAIN **Domino's Pizza (DOM)** surprised investors when it announced (9 Mar) a fresh medium-term growth plan, a big share repurchase programme and strong recent trading, with the stock gaining over 12% in response.

New chief executive Dominic Paul plans to increase system sales by around 30% to between £1.6 billion and £1.9 billion by adding over 200 new stores.

In addition, the cash-generative company, which benefits from operating a capital light business model plans to return more excess cash to shareholders, starting with a £45 million programme, representing around 3% of the market capitalisation.

The share repurchase is worth roughly the 9.1p per share final dividend (£43 million).

Richard Stubber, retail analyst at Numis, estimated that the new growth plan if successful would deliver a compound annual growth rate of 5.5% over a five-year timescale or 6.7% over four years.

Theoretically that could result in shareholder returns of 11.5% to 12.7% a year over the next four or five years. While investors welcomed the new plans, it may take longer to convince analysts with four out of seven having a 'sell' rating on the stock. [MG]

Alliance Trust could soon have massive capacity for dividend growth

Its 'merger reserve' could provide healthy dividend cover

Investment trust **Alliance Trust (ATST)** has racked up 54 years of rising dividends and expects to pay a higher dividend in 2021 and beyond, boosted by a massive 'merger reserve' that gives the trust huge scope to support long-term dividend growth.

Though net asset value (NAV) total return performance lagged the benchmark in 2020, as large cap tech and e-commerce companies continued to dominate the market, Alliance Trust raised the total dividend by 3% to 14.38p.

This was despite the challenging backdrop for generating income caused by Covid as the company used a small portion of its revenue reserves.

Investing globally under a 'manager of managers' approach, Alliance Trust, which sold the Alliance Trust Savings platform to Interactive Investor in 2019, has one of the largest revenue reserves of any investment trust, £99.2 million after the 2020 dividend in fact.

At next month's annual shareholder meeting, Alliance Trust will seek approval to convert a £645.3 million merger reserve, a legacy from 2006 when the merger with the Second Alliance Trust took place, into a further distributable reserve.

This move would take total distributable reserves close to £745 million, dramatically boosting the trust's dividend-paying firepower for the future and covering the most recent annual dividend more than 16 times, according to Kepler Trust Intelligence. [JC]

Wizz Air directors sell out as shares hit all-time high

The airline's stock is in demand but directors seemingly don't share investors' optimism

THE GLOBAL PANDEMIC may have slammed the aviation sector, with the emergence of new Covid variants providing a potential threat to the vaccine rollout and reopening of travel, but that hasn't stopped shares in budget airline **Wizz Air (WIZZ)** hitting an all-time high.

The FTSE 250 carrier has traded above £50, its highest ever level, as investors look towards hopes of a 'normal summer' thanks to the vaccine rollout and the big accompanying recovery in earnings it could bring for travel firms, with clear pent-up demand for foreign holidays.

Wizz Air in particular is also in demand with investors as it makes more from ancillary revenue than any other airline, doesn't have the same elevated level of borrowings as its peers. It has the highest exposure in the sector to the fastest growing economies in Europe.

But it seems Wizz Air directors don't necessarily share all the optimism of their investors, with many including chief executive Jozsef Varadi taking the chance to offload sizeable stakes at elevated prices.

In the past few weeks, Varadi has sold 120,000 shares at a price of £53.17 each, netting him £6.4 million. Chief operating officer Diederik Pen has offloaded just under 18,500 shares at an even higher price of £54.17 in a deal worth £1 million.

Chief commercial officer George Michalopoulos has sold 5,000 shares at £52.99 in a transaction totaling £265,000, while chief corporate officer Marion Geoffroy has parted with 2,000 shares for £53.74 in a deal worth £107,000. [YF]


THE SCOTTISH
Investment Trust
We invest in ugly ducklings…
Unloved and underappreciated, our contrarian opportunities have the potential to flourish during the economic recovery and thrive over the long term.
aic
DIVIDEND HERO
…until they become fully fledged swans.
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Recovery and income potential make Polar Financials stand out

This investment trust is a good way to play brighter prospects for the financials sector

There is a growing consensus that as the global economy recovers from the pandemic and long-term interest rates – such as the US 10-year Treasury yield and the UK 10-year gilt yield – start to move upward, investors need to increase their exposure to banking stocks.

The thinking goes that as banks are large, geared, cyclical plays they should benefit as the economy improves. They can lend more money to businesses and consumers at attractive rates while provisioning less against potential credit losses as the risk of default decreases.

Our preferred way to get exposure to the financial sector as a whole, not just banks, is through **Polar Capital Global Financials Trust (PCFT)**.

WELL CAPITALISED

The big difference between the current pandemic and the global financial crisis of 2007 to 2009 is the health of the global banking system.

After the financial crisis, regulators worldwide forced banks to provision early for potential bad loans and to carry enough surplus capital to be able to withstand another severe drop both in stock markets and economic demand.

POLAR CAPITAL GLOBAL FINANCIALS TRUST

BUY

(PCFT) 155p

Net assets: £220 million

As a result, the banking system today is far better placed to help speed the recovery than it was over a decade ago. If short-term interest rates rise along with long-term rates – which isn't a given at the moment but seems likely if inflation overshoots the central banks' targets – then banks would be a big winner as they would be able to expand their net interest margins for the first time in many years.

Net interest margin is a crucial figure to monitor with banks, being the difference between income received from loans and money paid out as interest to depositors.

As a rule of thumb, a 1% rise in US short-term interest rates would add 7% to bank earnings in the first year and 10% to 12% the following year. Earnings for European and Asian banks are even more sensitive to short-term rates so the uplift to profits would be significantly higher.

Polar Global Financials geographic split

Region	Weight
North America	44.9%
Asia ex-Japan	25.6%
Europe	15.2%
UK	7.0%
Fixed Income	5.4%
Latin America	2.0%
Japan	1.1%
Cash	-1.2%

As at end of January, source Polar Capital

RISING INCOME STREAM

Shonil Chande, an equity analyst at investment trust research group Quoted Data, highlights the fact the £220 million Polar fund aims to generate a growing dividend income alongside capital appreciation. As it stands, the dividend yield of 3%, paid semi-annually, is reasonably attractive compared with zero deposit rates.

However, because the banks were so well-capitalised going into the pandemic and the impact of defaults on loans has been so much milder than expected, the discussion has turned to distributions in the form of dividends and share buybacks.

For US banks, dividends and buybacks can't exceed the previous four quarters' net income. As the banks took large provisions in the first two quarters of last year, once those quarters drop out of the rolling 12-month calculation in July then tens of billions of dollars' worth of unused loan reserves could be returned to shareholders.

For UK banks, the rules on dividends and buybacks are stricter but they can still look forward to a steadily growing stream of income over the next couple of years.

WELL DIVERSIFIED

Lead manager Nick Brind cautions against looking at the Polar investment trust through the lens of UK banks. 'Understandably, there's a lot of interest in the UK banking sector because it's cheap and unloved, but there are huge opportunities globally,' he says.

As well as banks, the investment trust has stakes in life insurers, non-life companies, asset managers, stock exchanges, specialty lenders, payment providers and fintech companies.

It is also geographically diversified, with exposure to Asia Pacific excluding Japan having risen from 18% to 26% over the past year making it the second largest region after the US, which accounts for 45% of the portfolio. By comparison, the UK makes up just 7% of the portfolio.

As of mid-February, the fund's top 10 holdings were JPMorgan, Bank of America, Mastercard, HDFC Bank, Citizens Financial, Chubb, Wells Fargo, AIA Group, Signature Bank and Arch Capital.

Among the fund's UK holdings are **Direct Line (DLG)**, **Helios Underwriting (HUW:AIM)**, **Lancashire Holdings (LRE)** and **OneSavings Bank (OSB)**.

A TURNING TIDE

Many financial stocks hit multi-year lows during the first half of last year, but the sector outperformed strongly in the fourth quarter after the announcement of the Pfizer vaccine, helping the fund's shares to a gain of 0.85% last year.

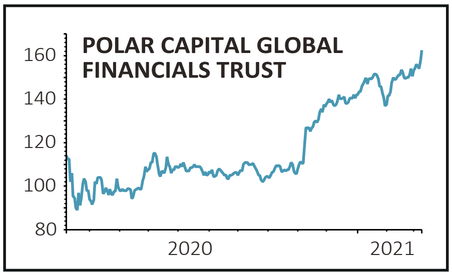
So far this year, the shares are up 9.1%, just slightly ahead of the net asset value which is up 9% to 153p.

We think financials in general and the fund have the potential to carry on rallying as confidence builds that the recovery is real and the tide of interest rates has turned. [IC]

Polar Global Financials top 10 holdings

Stock	Weight	Share price change year to date
JP Morgan	5.2%	20.3%
Bank of America	3.4%	22.5%
Mastercard	2.5%	1.1%
HDFC Bank	2.4%	5.8%
Citizens Financial	2.3%	28.3%
Chubb	2.3%	12.5%
Wells Fargo	2.2%	28.1%
AIA Group	2.2%	1.6%
Signature Bank	2.2%	67.5%
Arch Capital	2.1%	3.2%
Average performance		19.1%

Holdings correct as of 26 Feb, source Polar Capital
Prices correct as of close 8 March
Source: Bloomberg



Biffa looks tasty from a growth and green perspective

Consolidating the waste market generates financial and environmental benefits

Waste management group **Biffa (BIFF)** is bouncing back from the pandemic faster than management and analysts were expecting.

Biffa has got back into its stride, making bolt-on acquisitions in waste collections and it has just entered a new growth segment through the acquisition of distribution business Company Shop.

The shares have yet to reflect the underlying improvement in the business and its strong competitive position, meaning now is a great time to buy before the market wakes up to the opportunity.

Biffa is the UK's leading sustainable waste management company with double the market share of its nearest national competitor. It is actively consolidating a fragmented market, having spent £198 million on 45 acquisitions since 2014.

Consolidating the market increases scale and route density (how many stops are made) while squeezing out efficiencies and removing unnecessary trucks from the road, reducing CO_2 emissions. This provides benefits to both shareholders and the climate.

BIFFA
BUY
(BIFF) 269.5p
Market cap: **£825 million**

Since 2002 Biffa has increased route efficiencies by 20%, reduced emissions by 65% and plans to cease buying fossil fuel trucks by 2030 when the company aims to have reduced its carbon footprint by 80%.

Meanwhile, shareholders have benefited from increasing operational leverage with operating profit growing at a compound growth rate of 18% a year over the last six years.

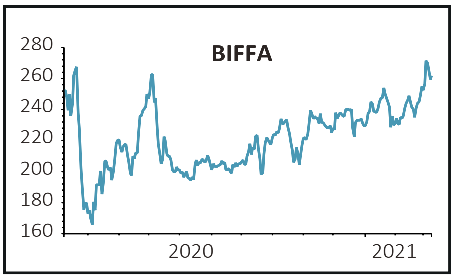
The cost synergies that Biffa can extract from acquired companies means that it usually ends up paying less than five times earnings before interest, tax, depreciation, and amortisation and thereby enhancing earnings.

The bounce back from the pandemic has been stronger than management and analysts had expected, as communicated in a trading update on 3 March, which should lead to more earnings upgrades from analysts over the coming months. In addition, the acquisition of Company Shop adds a new, exciting growth business to Biffa which is expected to immediately enhance earnings. This is the UK's largest redistributor of surplus food, drink and household product, targeting 50% growth in revenue and EBITDA over the next three to four years.

There are an estimated 141,000 tonnes a year of surplus food and beverages suitable for human consumption in the UK. Company Shop has a network of 12 membership-based outlets where employees of fast-moving goods companies and NHS staff and other key workers can purchase the produce at a discounted price.

Biffa also operates a leading plastics recycling business and is building energy from waste infrastructure.

Sustainable growth opportunities and strong green credentials position Biffa as an attractive long-term investment. [MG]



DIVERSIFIED GAS & OIL

(DGOC) 127.4p

Gain to date: 24.9%

Original entry point:

Buy at 102p, 21 May 2020

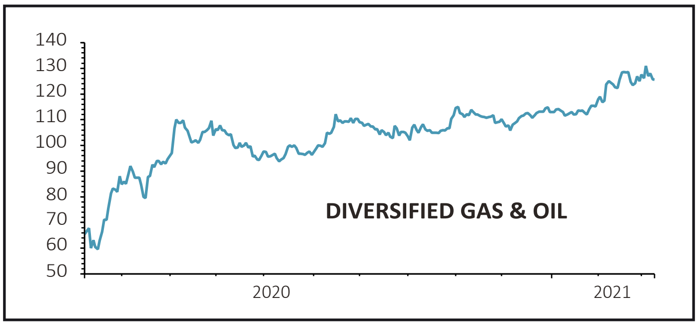
UNUSUALLY FOR A medium-sized oil company **Diversified Gas & Oil's (DGOC)** investment case is as much about income as it is about capital gains but the recent improved sentiment towards the sector is helping it chalk up an advance in the share price to go with its growing dividend.

Results on 8 March saw the company report record annual production, up 18% to 100,000 barrels of oil equivalent per day. This helped to underpin a 14% year-on-year increase in the dividend with two consecutive increases in the quarterly payment during 2020.

The company, which concentrates on acquiring low-cost natural gas production in the Appalachian region of the US, has protected itself from any downside in the gas price by hedging 90% of its output at an average price of $2.66 per million British thermal units.

In November 2020 the company formed a partnership with specialist asset manager Oaktree Capital to acquire further assets, with Oaktree committing up to $1 billion over a three-year period to be matched by Diversified.

Investec says the tie-up provides 'the firepower for the company to go after deals in an "acquisition rich" environment in the US', adding that it expects news on a deal in the coming months.



SHARES SAYS: ↗

Its strategy is simple and effective. Keep buying. [TS]

ITV

(ITV) 123.9P

Gain to date: 63%

Original entry point:

Buy at 76p, 30 April 2020

OUR POSITIVE CALL on free-to-air broadcaster **ITV (ITV)** is handsomely in the money despite a mixed set of full year numbers on 9 March.

The company is seen as a big beneficiary of a reopening of the economy as advertising spend should increase.

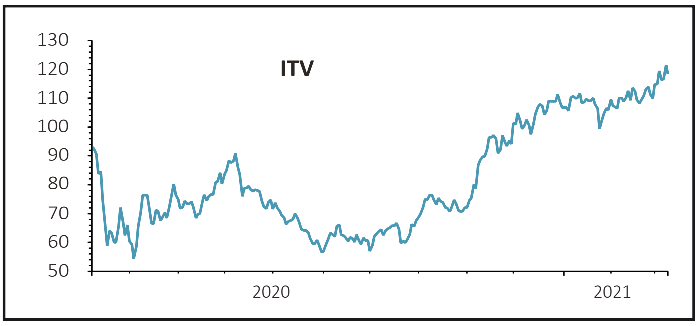
Total advertising, which includes online video on demand and sponsorship, is forecast by ITV to be up an eye-catching 60% to 75% in April.

The easy comparatives should support investor interest, particularly with the delayed Euros football tournament likely to provide another fillip should it go ahead.

However, we will still keep a close eye on the shares, because some of the longer-term implications of the latest financial results are less favourable.

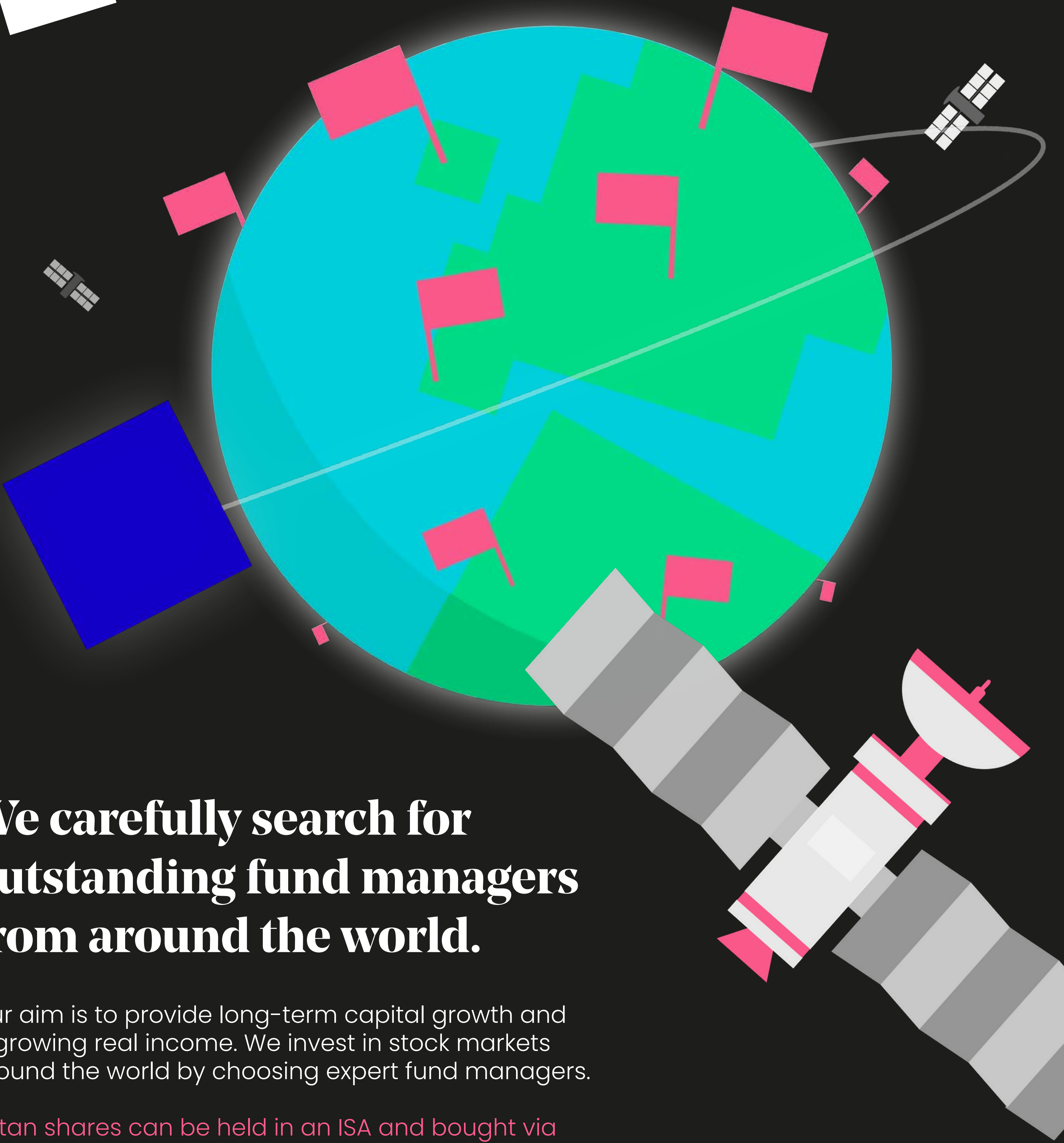
The company's audience share fell and the lack of a big name programme like *Love Island* to bolster its streaming credentials saw online viewing drop 5%, despite having a captive audience in lockdown.

Its Britbox streaming joint venture may be growing but 2.6 million global subscribers is a drop in the ocean compared with its big global rivals in a highly competitive market.



SHARES SAYS: ↗

Short term this is still a buy but we plan to revisit the longer-term investment case later this year. [TS]



The SPAC trend could hit the UK but is it a good thing?

Proposals to loosen rules on public offerings bring risk as well as rewards

There has been much discussion of SPACs, or Special Purpose Acquisition Companies, in recent months, but they aren't a new concept by any means.

Back in the 1980s SPACs were known as cash shells, a time and money-saving way for firms to list quickly. They typically came with boards full of highly experienced businesspeople, good institutional contacts, and a boat load of cash.

Also, they typically traded at a significant premium to their cash value soon after listing as investors anticipated them finding an inspired acquisition, making everyone fabulously wealthy in the process.

Until a few years ago, UK cash shells favoured the looser regulation of the AIM market. That was until AIM effectively shut the door following the Gate Ventures debacle in 2015, where the company descended into madness within a year of listing and shareholders lost everything.

However, if the Financial Conduct Authority adopts Lord Hill's proposals to loosen the rules on London listings, there could be a flood of new SPAC offerings coming to the UK stock market because more companies might be willing to use them as a way of listing their shares.

SPACs couldn't be more 'now' – sporting stars Shaquille O'Neal and Colin Kaepernick each have one, and even musician Jay-Z is involved with a SPAC. Yet this type of investment vehicle goes back three centuries to the South Sea Bubble, one of the greatest examples of stock market mania in history.

Then, as now, investors must trust that management a) knows what it's doing and b) doesn't overpay for assets. Yet managers are typically paid a fee of up to 20% based on the value of their assets, not their performance, so what price due diligence?

SPACs typically aim to acquire all or most of a company and to control or operate it. They are free to load up with debt, increasing their firepower as well as the risk to shareholders' funds. They also don't need to appoint reporting accountants.

In the past, it paid to buy a SPAC when it joined the stock market and sell it a few months later when the valuation had exploded and it had yet to buy anything, so capturing the 'hope value'.

Three hundred years ago, one SPAC was launched 'for carrying on an undertaking of great advantage, but no-one to know what it is', according to its prospectus.

At that time, many SPACs rose to 10 times their value as speculation ran wild, yet all eventually went to zero. It's worth remembering the words of philosopher George Santayana, who said: 'Those who cannot remember the past are condemned to repeat it.'

By **Ian Conway**
Senior Reporter

RUSS MOULD
AJ Bell Investment Director

The questions facing UK gilts

Government bonds could be argued to offer 'return-free risk'

In some ways, markets had little to digest in the immediate wake of the Budget, as so much of the chancellor of the exchequer's speech had made its way into the newspapers the previous weekend.

Rishi Sunak did come up with a couple of surprises all the same, in the form of the superdeduction for capital investment and his plan for eight freeports, designed to boost the UK's trade flows in a post-Brexit world. The key issues raised by the Budget, at least from an investment perspective, passed unasked:

• Why should anyone lend the UK money (and therefore buy its government bonds, or gilts) when it does not have the means to pay them back?

• Why should anyone lend money to someone who cannot pay them back in return for a yield of just 0.77% a year for the next ten years (assuming they buy the benchmark 10-year gilt)?

• Why would anyone buy a 10-year gilt with a yield of 0.77% when inflation is already 0.7%, according to the consumer price index, and potentially heading higher, especially if oil prices stay firm, money supply growth remains rampant and the global economy finally begins to recover as and when the pandemic is finally beaten off?

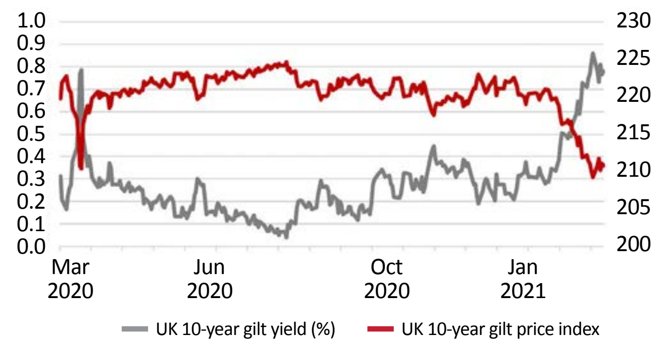
Anyone who buys a bond with a yield of 0.77% is locking in a guaranteed real-term loss if inflation goes above that mark and stays there for the next decade.

In sum, do UK government bonds represent return-free risk? And if so, what are the implications for asset allocation strategies and investors' portfolios?

GILT YIELDS ON THE CHARGE

The benchmark 10-year gilt yield in the UK has surged of late. It is not easy to divine whether this is due to the fixed-income market worrying about inflation or a gathering acknowledgement that the UK's aggregate £2 trillion debt is only going one way – up. But the effect on gilt prices is clear, since bond prices go down as yields go up (as is also the case with equities).

Gilt prices are tumbling as yields rise



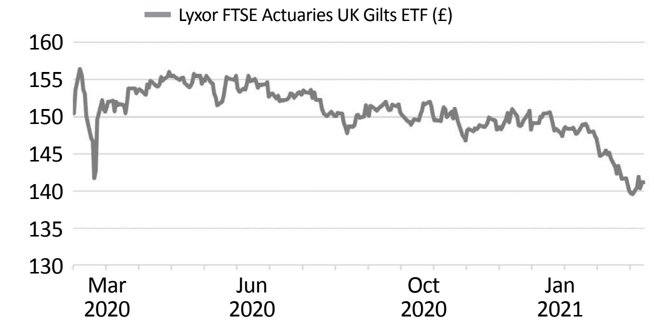
Source: Refinitiv data

This is inevitably filtering through to exchange-traded funds (ETFs) dedicated to the UK fixed income market. The price of two benchmark-tracking ETFs has fallen, albeit to varying degrees. The instrument which follows shorter-dated (zero-to-five year) gilts has fallen just 2% since the August low in yields.

Meanwhile, the ETF which tracks and delivers the performance of a wider basket of UK gilts (once its running costs are taken into account) has fallen 8% since yields bottomed last summer.

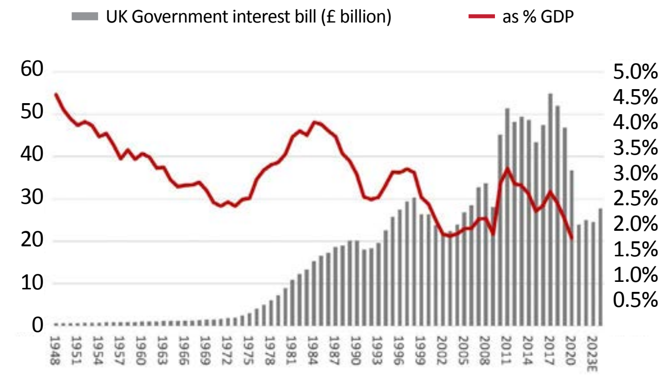
That 8% capital loss is at least a paper-only one, unless an investor chooses to sell now, but the yield on offer does not come even close to compensating the holder for that paper loss,

A broad basket of gilts has seen its price decline



Source: Refinitiv data

UK interest costs are low, relative to GDP



Source: Refinitiv data

which supports the view that bonds now represent return-free risk.

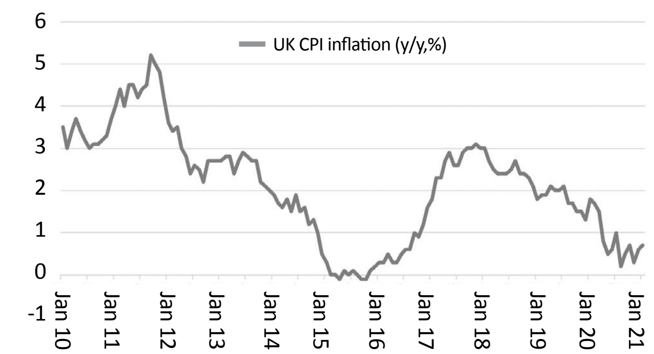
SAVING GRACES

However, the higher bond yields go, the greater the return they offer and that means at some point investors may decide that the rewards are sufficient compensation for the risks, especially as three arguments could still support exposure to UK gilts.

• The market's fears of inflation could be misplaced. Bears of bonds have been growling about record-low interest rates and record doses of quantitative easing would lead to inflation for over a decade – and it has not happened yet.

If the West does turn Japanese and tip into deflation, even bonds with small nominal yields would look good in real terms and possibly better than equities, which would do poorly into a deflationary environment, at least if the Japanese experience from 1990 until very recently is a reliable guide.

Fears of inflation have yet to be borne out



Source: Refinitiv data

• The UK's financial situation may not be quite as bad as it seems. Yes, the national debt is growing but the Bank of England's monetary policy is keeping the interest bill to manageable levels.

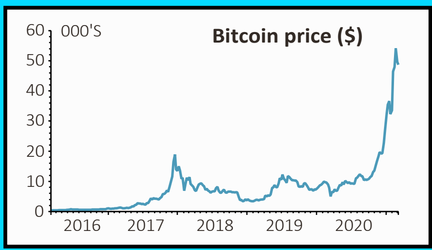
The Government's interest bill as a percentage of GDP has hardly ever been lower. That buys everyone time and is also why Sunak is tinkering with taxes, to convince bond vigilantes and lenders alike that the UK can and will repay its debts, as it has every year since 1672 under King Charles II. A big leap in bond yields (borrowing costs) would be expensive.

• The Bank of England could move to calm bond markets with more active policy. Whether that calms inflation fears is open to question but financial repression (see a recent edition of this column) could yet come into play, supporting bond prices and reducing yields.

In sum, no-one has a crystal ball. Therefore, bonds could yet have a role to play in a well-balanced portfolio over time, but it is inflation, rather than risk of default, that looks likely to be the greatest threat to any holder of gilts.

BITCOIN BOOM

The pros and cons of putting money into the cryptocurrency



By **Steven Frazer**
News Editor

Bitcoin's recent surge beyond $50,000 for the first time has reignited intense discussion about the best-known cryptocurrency.

Its meteoric rise in recent months has lured in thousands of Millennial investors with dreams of fast profits thanks to the swathe of mobile apps, such as Coinbase, that make buying bitcoin simple.

But the powerful forces of emotion and psychology toy with older, more experienced investors too and many have felt the grip of FOMO, or the fear of missing out.

The number of people asking if they should put money into bitcoin grows by the day, so *Shares* has put together the pros and cons in this article.

VOLATILTY ACCEPTED

Industry research shows that 54% of investors polled are not being put off from buying bitcoin despite intensely volatile markets. 'Historically, the run up to March is a very volatile period in cryptocurrency markets,' says Jolyon Layard-Horsfall, chief executive of cryptocurrency predictions platform TotemFI.

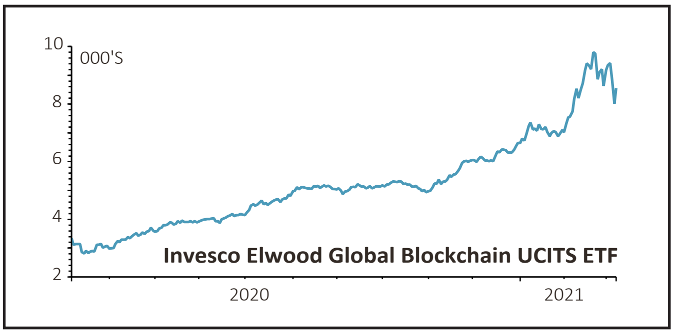
'Last March bitcoin fell by 28.9%, and in March 2018 by 39.9%, but in all instances the price quickly rebounded, and March corrections are often followed by long bull runs and, frequently, by new all-time-highs,' he adds.

As investors have piled in, it has lit a fire under some bitcoin stocks. Bitcoin miner **Argo Blockchain (ARB)** has been one of the most popular shares traded across UK investment platforms so far this year, sending its stock soaring from 33p to a high of 284p on 17 February.

There is also the **Invesco Elwood Global**

Blockchain UCITS ETF (BCHS). It doesn't invest in bitcoin directly but has stakes in companies that use or are developing the blockchain technology that underpins bitcoin.

The ETF only launched in 2019 so performance history is limited but it did grow by more than 131% in the year to 5 March 2021, according to Morningstar data.



INSIDE INVESCO'S BLOCKCHAIN ETF

Canaan	Integrated circuits designer	**8.35%**
Monex	Cryptocurrency broker	**5.01%**
Silvergate Capital	Asset manager	**4.32%**
MicroStrategy	Business analytics	**4.31%**
TSMC	Microchip manufacturer	**3.65%**
CME	Derivatives exchange	**3.58%**
HIVE Blockchain	Blockchain infrastructure	**3.54%**
Ceres	Cryptocurrency and media	**3.07%**
Kakao	Social media apps	**3.07%**
GMO Internet	Internet business	**2.93%**

Source: Morningstar. % figure refers to holding in the ETF

NUTS AND BOLTS OF BITCOIN

Bitcoin is a digital currency and a protocol that enables instant worldwide payment transactions with low or zero processing fees.

Unlike typical currencies, bitcoin operates with no central bank or authority. Instead, managing transactions and issuing bitcoins is carried out collectively by the network of users. The software is a community-driven, free, open-source project. Basically, it uses cryptography to control its creation and transactions.

About 900 bitcoins are mined every day, according to buybitcoinsworldwide.com, with more than 88% of the finite total that will ever be created already in issue. That suggests the last bitcoin will be mined by 2030.

Mining was a term deliberately chosen because of the way the creation of bitcoins is meant to mimic the act of mining gold, with a finite supply and diminishing returns the longer you mine.

HOW DO YOU INVEST IN BITCOIN?

Investors can buy bitcoin directly through cryptocurrency exchanges, such as Coinbase, Binance and Kraken, the three largest. There are also a growing number of bitcoin apps.

With bitcoin now trading at more than 10 times the $4,850 levels of March 2020, it has made the cryptocurrency hard to ignore even for those in the highest spheres of finance, technology and government.

Many have strong opinions on the digital currency and retail investors will find an abundance of bitcoin evangelists on the one hand, and cryptocurrency sceptics on the other.

Nobel prize-winning economics professor Robert Shiller (the man behind the cyclically adjusted price to earnings ratio) has previously called bitcoin an 'epidemic of enthusiasm' and a 'speculative bubble'.

American economist Nouriel Roubini (aka Dr Doom) claimed that 'most bitcoin investors are retail suckers who are clueless and financially illiterate', according to Bloomberg.

WHICH BIG NAMES ARE TAKING BITCOIN MORE SERIOUSLY?

The conversation seems to have moved forward with many large institutions now taking bitcoin far more seriously.

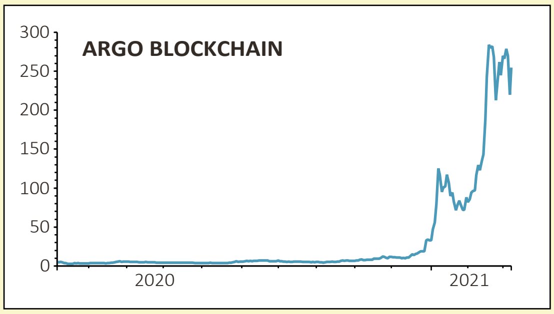
Tesla says it would be willing to accept payment for its cars in bitcoin and has purchased a $1.5 billion slug of the cryptocurrency.

Financial firms including Mastercard, PayPal and Bank of New York Mellon are shifting towards allowing transactions in bitcoin or hold it on clients' behalf, while Morgan Stanley CEO James Gorman and former Goldman Sachs boss Lloyd Blankfein have thrown their considerable clout behind bitcoin.

'Not so long ago, some experts argued that personal computers would never be adopted and that tablets would only be used as expensive coffee trays,' said Christine Lagarde, president of the European Central Bank, in 2017

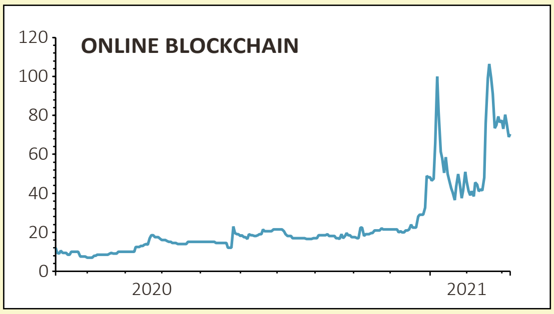
THREE STOCKS FOR BITCOIN EXPOSURE (AND ONE COMING SOON)

ARGO BLOCKCHAIN (ARB) 260P



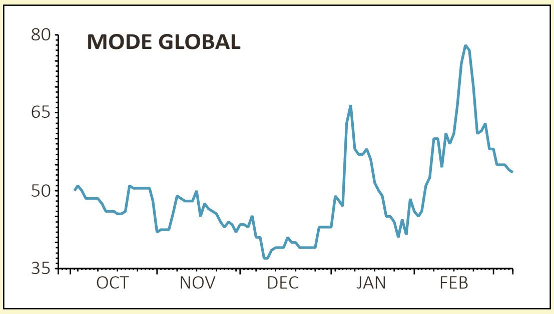
Argo Blockchain verifies blockchain distributed ledger transactions. It earns bitcoin for its transaction verification work, according to its website, a power-hungry business needing vast data processing capacity because of the complex calculations required.

ONLINE BLOCKCHAIN (OBC:AIM) 68P



Online Blockchain calls itself an incubator of cryptocurrency start-ups, projects and solutions, the company currently has nine interests in its portfolio including a stake in PlusOne Coin, which says it helps monitise social media platforms.

MODE GLOBAL (MODE) 53.2P



Recently listed Mode Global operates a bitcoin banking app. It saw trading volumes surge 1,500% in December and data on its customer base shows the male, under-30s demographic that is illustrative of wider bitcoin investment: 79% are male and 64% are 30 or under. It also offers a bitcoin jar product which offers the prospect of generating interest.

COINBASE TO FLOAT ON THE US STOCK MARKET

Coinbase, one of the world's largest cryptocurrency exchanges, is closing in on a stock market listing in the US with a $100 billion valuation mooted.

The company hopes to list its shares on Nasdaq and will trade under the ticker COIN. UK investors should be able to buy and sell the stock via most mainstream investment platforms.

when she was managing director of the IMF. 'I think it may not be wise to dismiss virtual currencies,' she added.

'The list of institutional investors and corporations allocating in bitcoin is growing rapidly and includes names such as business intelligence firm MicroStrategy, and high-profile asset managers Paul Tudor Jones, Bill Miller, Ruffer and Guggenheim Partners,' says Anatoly Crachilov, CEO of asset manager Nickel Digital.

UK LACKING BITCOIN INVESTMENT CHOICES

There seems to be no shortage of UK retail investors interested in bitcoin but they are currently starved of opportunity through investment products, particularly since the ban on derivatives and exchange-traded notes linked to cryptocurrencies by the UK's financial regulator, the Financial Conduct Authority, which came into effect in January. An exchange-traded note is a type of tracker fund.

That's not the case in the US, where bitcoin-based exchange-traded funds are rapidly emerging, even if they are not accessible from the UK.

The CME, a US derivatives exchange, offers bitcoin futures, which could smooth the way for a more liquid market in the future, and possibly expand the options for UK investors in time.

IS BITCOIN THE RESERVE CURRENCY OF THE FUTURE?

Some people believe longer-term investment is driving the latest surge in bitcoin popularity, yet others believe get rich quick profit speculation is the real culprit.

Bulls argue that bitcoin demand reflects rising fears of fiat currency debasement, due to central banks pumping liquidity into markets.

Bitcoin is increasingly seen as a place to put cash reserves and expectations for considerable inflows on this basis are a crucial part of the long-term investment case in favour of bitcoin.

'Gold and index-linked bonds have performed well in recent years, but have completely decoupled from bitcoin,' argues the team at capital preservation fund **Capital Gearing Trust (CGT)**.

They accept the possibility that institutional flows out of gold and into bitcoin is a plausible explanation for the current negative correlation between gold and bitcoin.

'A small shift in allocation, and associated disequilibrium, should result in high prices and high volatility,' says Capital Gearing. However, that would put pressure on bitcoin's valuation as this investment tactic flushes through markets.

'The future price of bitcoin could be much lower once these flows are complete and equilibrium re-established.'

CAN I PUT BITCOIN IN MY ISA OR SIPP?

No, you cannot. It is not possible to hold bitcoin directly in an ISA while the Financial Conduct Authority has banned the sale of exchange-traded products linked to bitcoin to retail investors.

ISAs and SIPPs are designed for long-term investing and the UK's finance watchdog still sees bitcoin as a speculative short-term asset. That makes it unlikely that bitcoin investing will be given the tax advantages of ISA and SIPP wrappers anytime soon.

While investors cannot invest in bitcoin or any cryptocurrencies directly through mainstream investment platforms, there are stocks listed on the UK and overseas markets which can give investors exposure, such as **Argo Blockchain (ARB)** in the UK, and MicroStrategy and CME in the US.

OTHER PARTS OF THE BULL CASE

Beyond the store of value argument, slashing the cost and complexity of moving money around the world and trading in multiple currencies are other potential advantages of bitcoin.

'For multinational businesses it is a huge nightmare,' says TotemFI's Layard-Horsfall. Stripping out the need for multiple currency reporting, accounting and complex derivatives for hedging would be an advantage for many companies.

There could also be advantages for the world's millions without access to banking, where bitcoin can be sent direct to an individual's phone without the need for accounts.

The TotemFI boss predicts that bitcoin will be worth $300,000 by the end of 2021, and sees the cryptocurrency soaring beyond half a million dollars in the next few years.

THE ARGUMENTS AGAINST BITCOIN

In bitcoin's short life it has experienced three valuation plunges of 80% or more, according to Capital Gearing, which is why it remains reluctant to invest in any asset which has a high probability of large drawdowns. 'We are especially reluctant to invest in an asset where we would be incapable of explaining such a fall.'

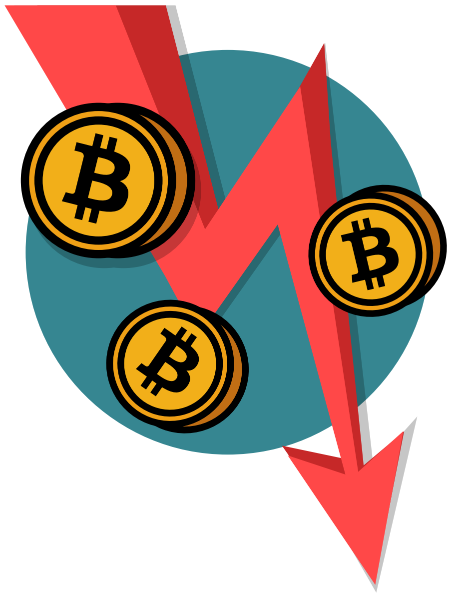
Consumer research conducted by Findoutnow in February on behalf of investment platform AJ Bell suggests that a generation of investors have 'leap-frogged traditional savings and investments and jumped straight into the deep end by buying cryptocurrencies', according to Laith Khalaf, financial analyst at AJ Bell.

'Not only are many consumers buying cryptocurrencies without having an ISA, pension or savings account in place, there also seems to be a significant misunderstanding of the risks involved,' he adds.

The research showed that 30% of cryptocurrency investors are not willing to lose any of the money they've invested, which suggests a real lack of understanding in the downside risks involved.

'If you're the world's richest man, investing $1.5 billion of the assets of your electric car company (Tesla) into bitcoin is one thing. But UK consumers seem to be playing Russian roulette with their money on the cryptocurrency markets,' Khalaf adds.

Security of bitcoin also remains an issue after high profile thefts by hackers. This is a key area where bitcoin needs to build trust with potential users. It's a wider digital security problem rather than a bitcoin-specific issue that includes online banking fraud, identity theft, online scams and stolen credit card details.



DON'T BET YOUR HOUSE ON BITCOIN

As with many things, the truth behind the bitcoin opportunity probably lurks somewhere between the extremes of opinion and *Shares* would suggest that investors apply a healthy measure of scepticism before plunging in.

Even then, we would not recommend allocating more than 5% of your assets to bitcoin and cryptocurrencies.

The UK's financial watchdog the Financial Conduct Authority earlier this year warned retail investors over the high risk of investing in cryptocurrencies like bitcoin, telling them to be prepared to 'lose all their money'.

'When there are no fundamental characteristics like assets, cash flows, recurring demand, etc, to base price estimates around, or a management team to discuss the way forward with, it's easy to lose confidence during times of crisis, and be shaken out of a position,' says Andrew Hardy, director of investment at Momentum Global Investment Management.

'That's something investors need to consider given the huge volatility that is likely to persist in the bitcoin price.'

EMERGING EMEA: THE EMERGING MARKET REGION YOU CAN'T AFFORD TO MISS

Matthias Siller, Head of EMEA at Barings, explores why the region deserves greater investor attention

Barings Emerging EMEA Opportunities PLC

Finding quality companies from emerging Europe, Middle East and Africa.

LOOK INSIDE THE average emerging markets investment portfolio and – chances are – China is the largest weighting. But being overexposed to any one market has its risks. It can also mean missing out on potential elsewhere. An area that investors can often overlook is what we call 'Emerging EMEA' – the developing markets across Eastern Europe, the Middle East and Africa. A diverse collection of countries with unifying characteristics that are compelling for any investor. Let's take a look at a few of them:

Start of the e-commerce revolution: We've seen how the seismic shift to living, working and shopping online has driven many aspects of stock market growth over the past decade. But many markets in Emerging EMEA are only at the start of this journey. What's more, it's not just the big global tech names that are benefiting. So-called 'local champions' are too – from the e-commerce platform Allegro in Poland to TCS, the first fully online bank in Russia.

Heart of the global energy transition: Russia and the Middle East's dominance in fossil fuel production may seem to put them at a disadvantage. But a global transition to natural gas as a cleaner, 'bridging' energy source will benefit Russia and Qatar. This is relevant in the context of the current energy transition sought by the European Commission, in which natural gas represents an alternative to reduce greenhouse emissions.

Positioned for growth and income potential: By focusing on cash-generative companies and sectors, we believe we are able to target an attractive level of income without compromising on long-term growth potential. In addition, our fundamental bottom-up investment approach helps to unearth opportunities in what we think is an under-researched region.

Of course, these markets still present political, currency and market risks – and demand a long-term investment view. But they also offer valuable diversification for any global portfolio. To find out more, visit www.bemoplc.com and for news and views, sign up at bemoplc.com/preferencecentre

Rare chance to buy popular tech trusts for a big discount

Names like Scottish Mortgage are on sale thanks to a shift in market sentiment

Investors have the rare opportunity to buy some technology-focused investment trusts significantly below the value of their underlying assets. Names on sale include **Allianz Technology Trust (ATT)**, **Polar Capital Technology Trust (PCT)** and **Scottish Mortgage Investment Trust (SMT)**.

The downside is that investors would be buying at a time when market sentiment has turned against this sector.

Making an investment now would require taking a long-term view over the prospects for tech-led businesses and being comfortable with potentially losing money in the near-term, should market sentiment stay negative towards these stocks.

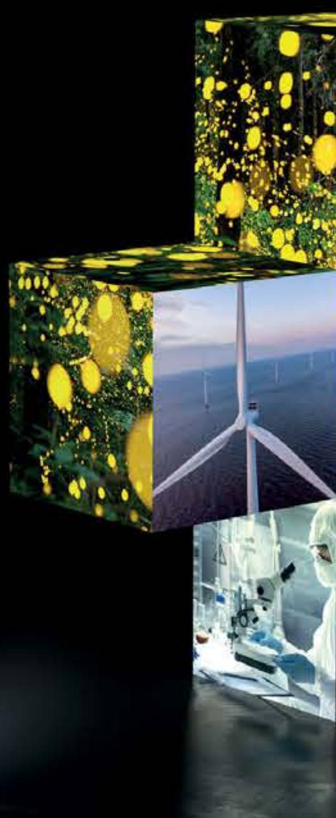
WHY IS TECH OUT OF FAVOUR?

A surge in bond yields indicates investors are concerned about how economic recovery will drive inflation and lead to higher interest rates.

Investors are prepared to pay top dollar for high-growth tech stocks when rates are low but that changes in an environment where interest rates are rising.

WIDER DISCOUNTS

Historically Allianz Technology, Polar Capital Technology Trust



and Scottish Mortgage have either traded at the same level of their underlying assets or at a small discount, such as 2% to 3%.

At the time of writing, Scottish Mortgage and the Polar Capital trust both traded approximately 12% below net asset value, while Allianz Technology Trust traded nearly 10% below NAV.

Tech trusts trading at significantly wider than average discounts to NAV

Trust	Current discount to NAV	1-year average premium / discount to NAV
Scottish Mortgage	-11.9%	-0.4%
Polar Capital Trust	-11.5%	-3.2%
Allianz Technology Trust	-9.6%	0.1%

Source: Winterflood, 8 March 2021

TRACK RECORD

It is fair to use the US tech-heavy Nasdaq 100 as a benchmark for these trusts and all three have outperformed an index which itself has delivered a total return of more than 400% over the last decade.

On one level their performance justifies the extra costs associated with an actively managed portfolio; after all you could achieve exposure to the Nasdaq with a lower cost exchange-traded fund.

To beat such a buoyant performance from the Nasdaq is a notable feat. Some credit for this achievement can be given to the investment trust structure which makes investment in early stage unquoted businesses easier and supports a long-term approach.

STRUCTURAL BENEFIT

Trusts, unlike mutual funds, aren't as reliant on how easy underlying investments are to trade and aren't forced to make short-term decisions on stocks as they don't need to sell down holdings to meet redemptions when investors ask for their money back.

Beyond sharing the same structure and broadly the same focus on the tech industry there are important differences in the approach pursued by Allianz Technology, Polar

Capital Technology and Scottish Mortgage.

For one, Scottish Mortgage, the largest of the three, would probably object to being lumped into the technology category, even if several of its top holdings – electric vehicle firms Tesla and NIO, Amazon, microchip specialist ASML as well as Chinese internet firms Alibaba and Tencent, would be considered tech businesses in most people's eyes.

The aim, under long-standing managers James Anderson and Tom Slater, is to identify and invest in the best growth companies in the world and hold on to them for the long-term, so five years or more.

The recent decision of Anderson and Slater to trim exposure to Tesla, previously their largest holding, shows they are not averse to taking some profit when the opportunity arises.

Unquoted companies account for 16.1% of total assets and previous investments in private businesses which have gone on to join a stock market include music streaming firm Spotify, Alibaba and ride hailing app Lyft.

EXPLICIT TECHNOLOGY FOCUS

The Allianz and Polar trusts have a more explicit focus on technology but there are subtle distinctions in their strategies.

Run by veteran manager Walter Price and his team from San Francisco and with 85% of the fund allocated to North America, Allianz Technology takes a bottom-up stock picking approach which tends to mean it deviates from its benchmark more than some other tech funds with an active share (a measurement of just how much the portfolio deviates from the benchmark) of 70%-plus. The higher the percentage, the greater the difference to the benchmark.

There is an emphasis on meeting directly with businesses and staying in touch with the latest big themes to identify firms which could become the industry leaders of the future.

It has big positions in familiar names like Google-owner Alphabet, Amazon, Microsoft, Apple and Samsung. Alongside these there is a place for smaller outfits like online payroll firm Paycom Software and cyber security play Zscaler.

This approach might lead to a bit more volatility but historically has helped Allianz deliver outsized returns. Both the Polar Capital and Allianz trusts are all about capital gains as, unlike Scottish Mortgage, they do not pay a dividend. Nonetheless, Scottish Mortgage's payout is nominal at best with a 0.3% yield.

COST COMPARISON

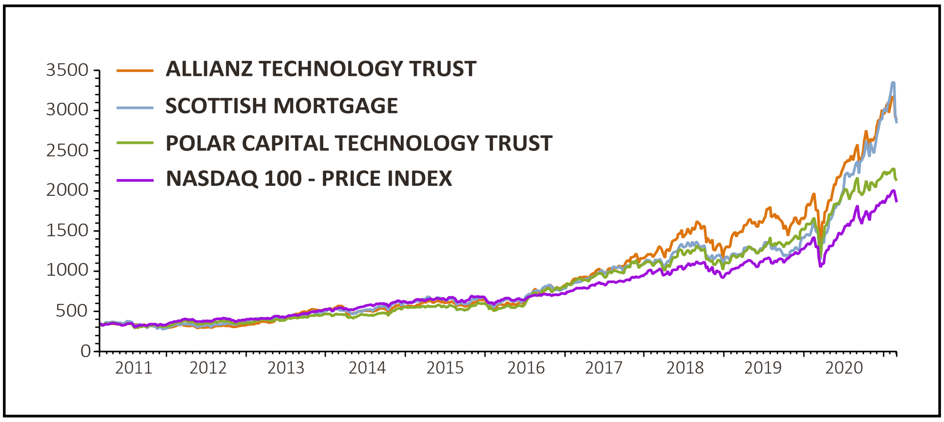
Steered by Nick Evans and Ben Rogoff, Polar's tech trust also adopts a thematic approach with a focus on stock picking and likewise carries a mix of larger and smaller names. However, it hugs the benchmark a little bit more closely with an active share of 60.9%. Its performance, while still impressive, has lagged that of the Allianz product.

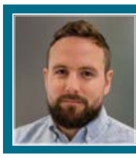
Polar Capital Technology is slightly more expensive with an ongoing charge of 0.93%, against 0.92% for Allianz Technology. The substantially bigger Scottish Mortgage benefits from greater scale and has an ongoing charge of 0.36%.

Outperforming the Nasdaq 100

Trust	10-year annualised total return
Allianz Technology Trust	22%
Scottish Mortgage	21%
Polar Capital Technology Trust	19%
Nasdaq 100	**18%**

Source: SharePad, data to 8 March 2021





By **Tom Sieber**
Deputy Editor

Baillie Gifford yet to show magic touch with Keystone

It's far too early to make any judgement on performance as the new manager has only been behind the wheel for a month

It may be early days but so far investment trust **Keystone Positive Change (KPC)** doesn't seem to have benefited from the magic touch of new manager Baillie Gifford.

The asset management firm behind **Scottish Mortgage (SMT)** hasn't had the instant impact on the trust in the same way it has with Witan Pacific, which has jumped more than 25% in price since Baillie Gifford became manager and renamed it **Baillie Gifford China Growth Trust (BGCG)** last September.

Keystone's share price has dropped from 339p to 285p since Baillie Gifford became manager on 11 February. In net asset value terms, the trust is down around 13.2% in the past month.

Shareholders may understandably be disappointed with the trust's performance since Baillie Gifford took over, but investors need to have patience.

As a fund manager focused solely on growth stocks, its style of investing is out of favour at the moment as investors chase cyclical and value stocks which could see a big recovery in earnings this year and next, even if they don't have some of the same structural growth drivers as companies in sectors like technology and healthcare which Baillie Gifford favours.

Baillie Gifford's stated aim is to find companies that can double their earnings in five years, the minimum timeframe investors should be looking to hold investments. In the case of Keystone Positive Change, it looks for businesses which can also 'contribute to a more sustainable and inclusive world'.

The trust's performance mirrors the near 10% fall in its open-ended mutual fund counterpart **Baillie Gifford Positive Change (BYVGKV5)**, which is also affected by the same style issues and ranks in the lowest quartile for fund performance so far in 2021.

However, the Keystone trust has various important differences from the mutual fund. As it has a close-ended structure, it doesn't need to be able to sell assets quickly, unlike an open-ended fund which might need to meet investor redemptions if large numbers sell out of the fund. This enables it to invest in unquoted stocks.

Manager Lee Qian says: 'For private companies we look forward to investing in businesses and providing direct primary capital towards companies, helping them to grow, invest in innovation and hire more people.

'In addition, with the investment trust we are able to deploy gearing. That is to borrow a small amount of money and use it to invest in companies. As long as the long-term investment return is higher than the cost of borrowing, this should help enhance investment returns for shareholders in the trust.'

By **Yoosof Farah**
Reporter

Evenlode Income goes from hero to zero: time to worry?

The popular income fund has been left behind after the market shifted preference from quality to value stocks

Prior to the pandemic, £3.6 billion **Evenlode Income Fund (BD0B7D5)** was lauded by various fund experts as a good place to put your money. On a five-year basis, it has been in the top 25% best performing funds for its category, achieving the much sought-after top quartile status.

Unfortunately, recent performance has disappointed with the fund in the bottom quartile for the past six and 12 months, according to FE Fundinfo. Investors will naturally be asking if something has changed or if it is simply bad luck.

The drop in performance is down to the market rotation into value stocks from November 2020 and Evenlode having a focus on quality growth stocks, which are currently out of favour.

Manager Hugh Yarrow says the fund has lagged the market because it has no exposure to resource companies and only small exposure to financials, both of which have rallied in recent months. Furthermore, the fund's large weighting to consumer goods companies such as **Unilever (ULVR)** and PepsiCo has acted as a drag as that sector has underperformed.

It's only stocks with smaller positions in the portfolio which have rallied since the start of November, with some surging over 25% including recruiter **PageGroup (PAGE)**, caterer **Compass (CPG)** and advertising firm **WPP (WPP)**.

An inevitable question is whether or not the fund should have an allocation to miners given their strong cash flow, underpinned by significant structural growth in demand for the metals they produce as we enter what looks to be a booming decade for commodities.

The likes of **Anglo American (AAL)**, **BHP (BHP)** and **Rio Tinto (RIO)** have seen their share prices soar, and all offer dividend yields at 4.5% or above.

However, Yarrow has faith in his 'stay the course' approach compared to the extremes seen in investors chasing 'unprofitable US technology shares' and then 'asset-intensive, economically sensitive' stocks like banks and miners.

He insists that 'many economically attractive, market-leading companies with good potential for long-term growth have been left behind in this rally' and are offering attractive dividend yields and potential for future share price growth, with some of these stocks being shunned due to the recent rise in bond yields as they're considered too 'bond-like'.

Shares believes investors should stick with the fund and agrees with Yarrow that the portfolio contains some attractive businesses with good long-term prospects. [YF]

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Evenlode Income

Evenlode Income has gone from outperforming to underperforming relative to the FTSE All-Share following the market rotation into value in November 2020

How to beat the chancellor's stealth tax raid

Budget freeze on tax allowances will hit investors but there are some solutions

Well, we knew it was coming, and now the chancellor has laid out how he's going to repair the Treasury's battered finances in his March budget. One of the key measures is freezing the personal tax-free allowance, and the higher rate threshold, which will mean individuals paying £19 billion over the next five years, and an extra one million people climbing into the higher rate tax bracket.

The allowances will rise next year as planned, to £12,570 and £50,270, but then they will be frozen until 2026. He's also frozen the inheritance tax (IHT) allowance, the pensions lifetime allowance, and the capital gains tax-exempt (CGT) allowance. The chancellor's been up front about it, but it's still a stealth tax, so here are some stealthy ways to fight back against the rising tax tide.

PENSION CONTRIBUTIONS

If you're a higher rate taxpayer, or become one soon, a pension contribution is a good way to reduce your tax bill. For each £800 you put in, the government adds £200 to your pension.

Higher rate taxpayers can then also knock a further £200 of their tax bill, which they would normally pay when they complete their tax return. If you contribute to a workplace pension, chances are your employer will get the extra tax relief applied automatically, you won't have to claim it.

The net effect is you get £1,000 in your pension, and it only costs you £600. Your investment growth and income are then tax-free inside the pension, and you can take 25% of your total pot as a tax-free lump sum at retirement. The remaining income you draw is taxable, but in retirement, you're likely to be paying a lower overall tax rate than when you're working. The chancellor did also freeze the pensions Lifetime Allowance at £1,073,100, so if you're lucky enough to be bumping up against this, you need to think twice before adding more money to your pension.

BED AND ISA

This is simply funding an ISA using an existing shareholding, but it allows you to sell an investment up to the £12,300 CGT-free gain limit, and buy it straight back within the ISA. So you keep the same investment, but crystallise some tax-free gains, and protect future gains from dividend tax to boot. If you want to switch out of the investment, you can simply buy a new fund or share in the ISA with the proceeds of the share sale.

STOCKS AND SHARES ISAS

You don't get upfront tax relief on a Stocks and Shares ISA, but your investments grow free from capital gains tax (CGT) and income tax. The chancellor has frozen the annual amount of gains you can make each year before paying CGT at £12,300 until 2026.

The Office for Tax Simplification recommended the chancellor reduce the allowance to between £2,000 and £4,000, and suggested he should raise the CGT rate, so a frozen allowance is probably a good outcome for investors. But it does mean investors potentially paying more tax on their gains, if their investments aren't held in a tax shelter like an ISA.

Dividends are also tax-free in an ISA. They are outside an ISA too, but only up to £2,000 a year, which on a portfolio yielding 4% equates to an investment value of £50,000.

Even if you're not there yet, you could well be in future, so it makes sense to protect yourself from dividend tax by making the most of the ISA wrapper. You can contribute up to £20,000 each tax year. That's particularly the case now frozen allowances are going to mean more people slipping into the higher rate tax bracket.

A basic rate taxpayer only pays 7.5% tax on dividends above £2,000 annually, but a higher rate taxpayer pays 32.5%, and an additional rate taxpayer pays 38.1%. So there's a great saving to be had by keeping your dividend stocks tucked up in an ISA.

BUDDY UP

If you're married or in a civil partnership, you can transfer assets between you without incurring capital gains, which can allow you to use two lots of the £12,300 capital gains tax allowance if you have a large gain to crystallise. That could potentially save you £2,460 in capital gains tax, if you're a higher rate taxpayer selling shares.

AIM PORTFOLIOS

The freezing of the IHT allowance at £325,000 is expected to cost taxpayers around £1 billion over the next five years. Investing in qualifying AIM companies can be one solution as these aren't subject to inheritance tax if you hold them for two years or more.

It can be tricky to work out which AIM stocks qualify to be IHT exempt and the smaller companies market can be higher risk but there are managed AIM portfolios out there which could help.

VCT AND EIS SCHEMES

Investors who have used up their ISA and pension allowances might consider VCTs and EIS's to reduce tax liabilities. These invest in very small, often unquoted companies, so risks are high, and liquidity is low. But they do come with notable tax benefits. A VCT comes with 30% up front tax relief on investment up to £200,000 per tax year, but you must hold the investment for at least five years to keep this benefit. Dividends and growth are tax-free.

With an EIS, you can also get 30% income tax relief, and defer capital gains. An EIS is normally free from Inheritance Tax after being held for two years too. It's important not to let the tax tail wag the investment dog though. If an investment looks too risky, or unprofitable, it shouldn't be taken on just because it saves some tax.

By **Laith Khalaf**
Financial Analyst

Is my pension withdrawal plan sensible?

A reader lays out their spending plans for life during retirement

I'm 62 years old and have a SIPP worth roughly £200,000. I've already taken my 25% tax-free cash and have a relatively small defined benefit entitlement (paying about £4,000 a year).

I've paid off my mortgage and think I'll need an income of around £15,000 a year from my SIPP to cover bills, a little holiday in the UK and a meal out every other week.

Does that seem a sensible amount to be withdrawing from my pension every year?
Emily

Tom Selby
AJ Bell
Senior Analyst says:

Before you start taking a retirement income from your SIPP, make sure you don't have any lost pensions from previous employers. A helpful resource is the Government's Pension Tracing Service.

You should also check your state pension entitlement. The state pension age is currently 66 and for those entitled to the full flat-rate state pension, its current value is £175.20 a week (or £9,110.40 a year). This could provide a valuable top-up to your private pension income.

You need to have a 10-year National Insurance (NI) contribution record to qualify for the state pension and a 35-year contribution record to get the full amount.

You can check your state pension entitlement, when you will receive it and how to fill in any NI gaps here.

Next, think about your retirement goals and the income needed – something you have clearly done.

You could also use this opportunity to review your investments to make sure you are still happy with them. Given the focus in drawdown is on generating an income for most people, savers often pick either dividend-paying stocks or income funds as part of their retirement portfolio.

As always, the investment choices you make should be based on your risk appetite and long-term plans.

It is also important to consider the sustainability of your withdrawal strategy as you enter drawdown. This will be impacted by a variety of things including the performance of your investments, age, health and lifestyle.

Let's take someone in your position with a £200,000 fund wanting to withdraw £15,000 each year. Inflation will reduce your spending power, so you'll need to increase withdrawals to keep pace with rising prices.

We'll assume withdrawals increase by 2% each year, in

line with the Bank of England inflation target. If investment returns are 4% a year, the fund could run out after about 14 years.

Given a healthy 62-year-old woman has an average life expectancy of 25 years and a one in four chance of celebrating their 94th birthday, there is a fair chance you will run out of money early in retirement on your withdrawal plan.

You could review your spending and see if you can make any cutbacks to make your fund stretch a bit longer, and don't forget to factor in any state pension you might receive into your spending plans.

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

WATCH RECENT PRESENTATION WEBINARS

Diurnal (DNL) – Martin Whitaker, CEO

Diurnal Group (DNL) is a specialty pharmaceutical company developing hormone therapeutics to aid lifelong treatment for rare and chronic endocrine conditions, including Congenital Adrenal Hyperplasia, Adrenal Insufficiency, Hypogonadism and Hypothyroidism.

Frenkel Topping Group (FEN) – Richard Fraser, CEO

Frenkel Topping Group (FEN) is engaged in the financial services sector. Its activities include specialist independent financial advice and wealth management with the objective of growing the assets under management.

ReNeuron Group (RENE) – Michael Hunt, CFO

ReNeuron Group (RENE) is a biotechnology firm. The principal of the business involves the research and development of stem cell technology for the treatment of motor disabilities and blindness-causing diseases.

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Buy into HeiQ Materials' exciting growth story

Strong intellectual property and effective brand development are key strengths of the business

There was a lot of hype around the recent stock market flotation of **HeiQ (HEIQ)**, with investors excited about its ability to make materials work better and kill Covid-19 from surfaces.

It raised money by issuing shares at 112p and reversing into cash shell Auctus Growth in December 2020. A month later the stock had more than doubled in price to 240p but then took a big knock when a trading update wasn't strong enough to drive big earnings upgrades. Investors' expectations were arguably too high, and the shares were sold down.

Having settled around 160p following this incident, the shares have started to perk up again as investors focus more on the long-term investment opportunity. Helping to win back the market's favour has been an important contract win and its first acquisition as a listed business.

It has bought a 51% stake in an industrial biotechnology business called Chrisal, strengthening existing capabilities and creating opportunities to enter new markets including water purification and probiotic personal care.

RAPID ANTIVIRAL FABRIC PROTECTION

Ahead of its float investors were excited about the company's award-winning antimicrobial textile technology, HeiQ Viroblock, effective at killing bacteria and viruses, including Covid-19 and influenza within five minutes.

HEIQ
Price: 200p

Market cap: **£251 million**

Viruses have been shown to survive on textiles for days and can increase disease transmission, fuelling huge interest in Viroblock's protection properties from a diverse range of industries.

Chief executive Carlo Centonze told *Shares* the company has received over 500 enquiries from global brands interested in licensing the brand and trademarks. Around 150 major brands including **Burberry (BRBY)** now use Viroblock.

On 11 February 2021 HeiQ became the first textile company to convert an industrial antiviral treatment into a functional detergent after winning a contract with Girbau, a global leader in professional laundry solutions.

The deal will see HeiQ bring enhanced antimicrobial and antibacterial protection to garments used in the healthcare and hospitality sectors.

WHAT DOES HEIQ DO?

The company develops and markets products that increase the functionality of technical, medical and consumer textiles. The core textiles chemicals market is worth around $25 billion a year and is expected to grow at mid-single digit percentage rates.

Growth is being driven by consumers looking for more functionality in their clothing such as antiviral, warming, cooling properties or odour control. HeiQ has developed a portfolio of technologies to deliver these benefits.

In addition to consumer apparel needs, the market is experiencing increased demand for home furnishing and technical textiles in industries spanning automotive, construction, healthcare and agriculture.

The antimicrobial textiles market is worth around $10.5 billion and expected to grow around 10% a year over the next five years according to a report by Global Market Insights.

The healthcare market dominates this segment, accounting for 45% of total consumption in products ranging from bedsheets to gowns, masks and curtains. The key driver is the requirement to prevent the spread of healthcare-acquired infections.

HEIQ HAS A UNIQUE BUSINESS MODEL

Despite its relatively small size HeiQ is involved in a broad array of activities ranging from pure research, commercial development, manufacturing and marketing.

The key characteristic of HeiQ's operations is its unique partnership model adopted across all parts of the business, providing greater reach and effectiveness.

Since inception in 2005 the company has created 200 technologies and received 17 awards including the Swiss Technology Award for Viroblock in 2020.

HeiQ has stitched together an international research network by partnering with researchers at universities and institutes. It sponsors around 40 PhD students who work on HeiQ projects and directly employs 13 chemists.

BRAND PARTNERS

HeiQ has partnered with 200 brands and focuses on blue-chip brands which offer the greatest revenue opportunities as well as the potential to enhance the HeiQ name.

The selection of brand partners includes:

SPORTS & OUTDOOR
Speedo, Patagonia, Burton, The North Face, Adidas.

INTIMATE AND HOSIERY
Triumph, Hanes, large Japanese apparel retailer.

FASHION AND ATHLEISURE
Burberry, GAP, Marks & Spencer, Inditex.

HOME FASHION
Serta Simmons, large Swedish home furnishings retailer

FOOTWEAR
New Balance, Vans, Geox.

WORKWEAR
Dickies, Duluth, Marks.

HeiQ's technologies are secured by nine patent families and the company has filed 182 trademarks.

MANUFACTURING AND MARKETING

HeiQ operates four production facilities, based in Switzerland, Australia and the US with a total capacity equivalent to $280 million sales. In addition, the company can call upon a further $220 million worth of capacity through its partner network.

Importantly, the firm has developed the knowhow and engineering expertise to scale up production from laboratory samples to full commercial mass quantities.

What differentiates HeiQ's offering from the competition is the level of marketing support it gives brand partners. The marketing tools help partners convert product innovation into a premium price.

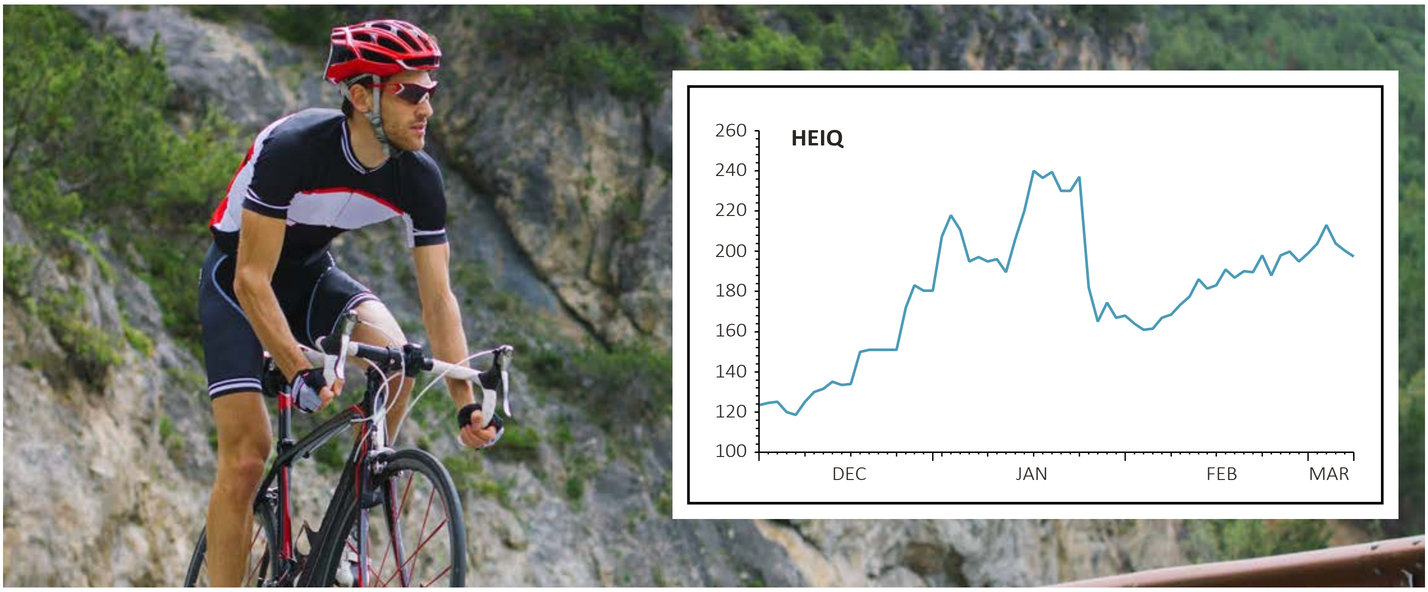
HeiQ's own research has discovered consumer willingness to pay a premium for specific functionalities. For instance, consumers are willing to pay more than a 150% premium for odour resistant apparel compared with the 15% premium currently charged. By analysing the barriers to achieving a higher price, HeiQ assists brands in sharpening their proposition.

THE HEIQ VIROBLOCK OPPORTUNITY

Viroblock has proven rapid antiviral properties when applied to fabric, destroying them in two to five minutes. The claim can currently be made in parts of the EU, most of Asia and Australia.

The active product is registered and compliant with regulators in the US and Europe allowing Viroblock-treated textiles to be sold in these regions.

HeiQ requires specific clearance from the US Food and



Drug Administration for medical products using Viroblock to make antiviral claims.

The firm has also tested the antibacterial properties of Viroblock which showed greater than 99.5% effectiveness when applied to polyester against bacteria within 20 minutes.

Viroblock revenues come from textile treatments sold directly to fabric manufacturers, from selling pre-treated material from which products can be produced and consumer-ready products (face masks).

In addition, the company sells royalty and trademark licences.

ADDITIONAL GROWTH OPPORTUNITIES

In addition to the growth potential for Viroblock, HeiQ is developing a revolutionary graphene-based highly porous membrane called GrapheneX in collaboration with the IBM/ETN nanotechnology centre. Graphene is a very fine layer of carbon and one of the strongest materials in the world.

Management stress the binary nature of this project, but it has significant growth potential. For example, applying the technology to desalinisation plants could provide a 10-fold increase in salt extraction.

The $850 million-to-$1 billion market for water repellent fibres is expected to be a good growth market for the company and it is launching three new products in the current quarter. HeiQ's products are eco-friendly and PFC (perfluorocarbons) free.

More stringent rules come into force across the EU from September 2021 banning the use of PFC, potentially impacting the market leaders Dupont and 3M which don't have competitive PFC-free products on the market.

HeiQ: financial forecasts

	2020E	2021E
Revenue ($m)	49.1	50.4
Pre-tax profit ($m)	8.3	12.3
EPS ($)	0.05	0.07

Source: Cenkos

FINANCIAL FORECASTS

While the Cenkos base case scenario assumes Viroblock revenues will fall back this year from 2020 levels, despite more customers being signed up every month, this could prove too conservative.

It's important to stress that beating or missing forecasts over the next couple of years is far less important than where earnings will go over the next decade.

Shares says: The positive fundamentals underpinning HeiQ's business have the potential to deliver better than average shareholder value. Buy.

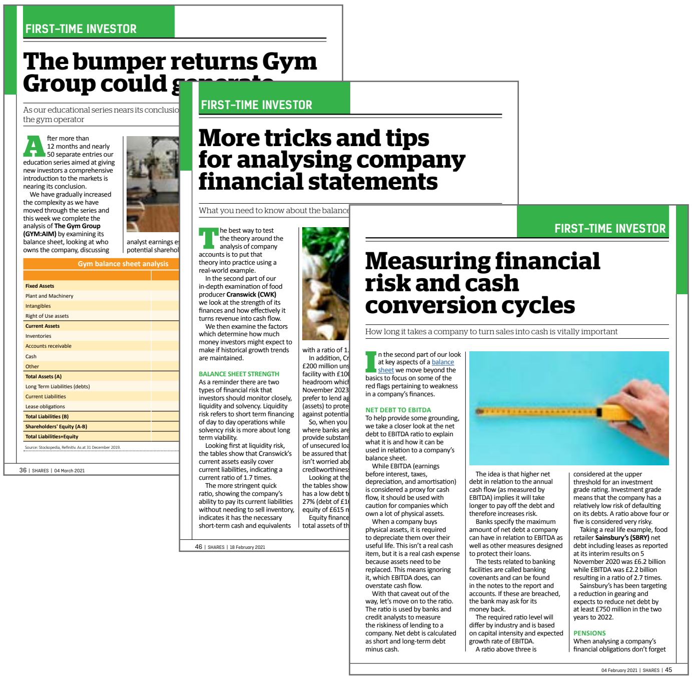
By **Martin Gamble**
Senior Reporter

Our ultimate guide to get you started with investing

We round up the entire education series with links to every article

We have reached the conclusion of our series aimed at first-time investors. Here you will find links to all the articles which cover the process of picking stocks, funds and investment trusts as well as reading balance sheets, finding information to support your investment decisions and a lot more.

We will continue to provide educational articles in *Shares* and we welcome any suggestions for future articles. Please drop us a line via email: **editorial@sharesmagazine.co.uk**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The bumper returns Gym Group could generate

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More tricks and tips for analysing company financial statements

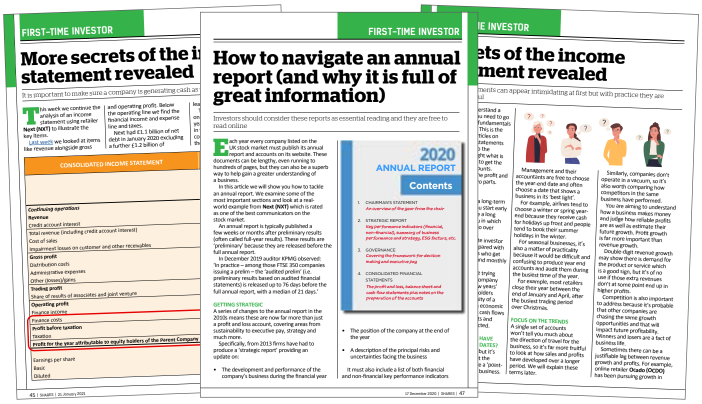
FIRST-TIME INVESTOR

Measuring financial risk and cash conversion cycles

How long it takes a company to turn sales into cash is vitally important

ARTICLE

- Getting started with investing
- The difference in risk between cash, bonds and shares
- Opening an investment account and making your first transaction
- The impact of charges on returns
- How much should you invest?
- Choosing between a SIPP, ISA and dealing account
- A guide to investment funds
- What are stocks and shares?
- A guide to bonds
- Investing in property
- Commodities and cryptocurrencies
- Introduction to ETFs
- Picking a fund
- Picking an investment trust
- How to invest in bonds
- Building your first portfolio
- Maintaining a portfolio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More secrets of the income statement revealed
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How to navigate an annual report (and why it is full of great information)
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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

15 March: Diaceutics, HG Capital Trust, Transglobe Energy. **16 March:** 4imprint, Antofagasta, Bakkavor, Bango, BioPharma Credit Investmentts, Close Brothers, Computacenter, Costain, Greggs, Harworth, KRM22, Polypipe, Sabre Insurance, STV, Team17, Simplybiz, Unite, Wood Group. **17 March:** Advanced Medical Solutions, Dignity, Empiric Student Property, Ferrexpo, Hostelworld, Kape Technologies, Mpac, Science in Sport, Tribal. **18 March:** 888, Capital Drilling, Empresaria, Eve Sleep, Fevertree Drinks, Genel Energy, Gym Group, National Express, Portmeirion, Restore.

Half-year results

16 March: Ferguson, Litigation Capital Management, ScS. **18 March:** Ceres Power.

Trading statements

16 March: C&C.

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