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What AstraZeneca's woes say about ESG investing

The company has seen its share price slump and reputation tarnished despite its best efforts to help tackle Covid



Global multi-national businesses with billions of pounds in revenue and profit aren't obvious candidates for sympathy but it's hard not to feel a bit sorry for **AstraZeneca (AZN)** after its experience over the last six months.

In partnership with Oxford University, AstraZeneca has developed a Covid jab in record time which can be easily stored and transported and, unlike other vaccine developers, agreed initially to produce it at cost.

Yet the Anglo-Swedish firm has found itself a political football, as prominent politicians in the EU in particular have cast aspersions on AstraZeneca and its vaccine, and seen its share price slump over the last six months.

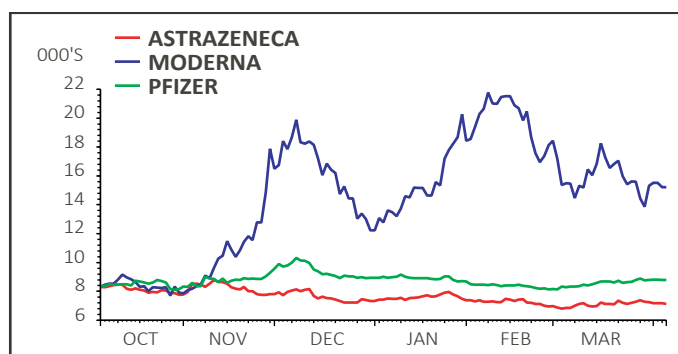
In some respects the company has been the author of its own misfortune. Its communication has been poor in some areas, heightening legitimate concerns over possible side effects associated with the vaccine and its overall efficacy.

The latest blow for the company came amid reports the medicines watchdog in the UK is set to follow the example of European countries and restrict the use of the jab in younger populations over concerns about rare blood clots.

UNDERPERFORMING OTHER VACCINE DEVELOPERS

It has also struggled to deliver on what it promised in terms of doses, though it is hardly alone in this, others have grappled too with the inevitably highly complex process of producing vaccines.

Yet its shares have come in a distant third behind other prominent vaccine names Moderna and Pfizer, both of which are set to book big profits



from their own jabs in 2021.

Astra has even said it will sell doses on a non-profit basis to the developing world in perpetuity. Given the need for every country to be inoculated if we are going to get out of the pandemic this is a critical pledge.

Against such a backdrop executives and employees at AstraZeneca may be left wondering where the rewards for good corporate behaviour promised by the growing prominence of investing along ESG (ethical, social, governance) lines, a topic discussed in our [recent feature](#), have disappeared to.

The spotlight put on public companies and the pressure from shareholders to do the right thing has been a very positive development in the past few years and has been reinforced by the better returns delivered by ESG-compliant businesses.

It would feel like a significant step backwards if this link was undermined by a high-profile example of a company looking to do its bit for the good of the world and getting brickbats instead of plaudits.



By **Tom Sieber** Deputy Editor

Contents



03	EDITOR'S VIEW	What AstraZeneca's woes say about ESG investing
06	NEWS	Europe powers ahead in 2021 as banks and carmakers beat tech / Beverages sector poised for summer of socialising, sodas and snacks / Investors upbeat on holidays return but analyst shares TUI fears
09	GREAT IDEAS	New: Medica / TeamViewer Updates: Micron Technology / Bloomsbury / Volution / Renewi
17	FEATURE	Our simple, no stress ISA portfolio
22	INVESTMENT TRUSTS	Trusts regularly raising cash to invest in assets can hamper returns
26	FEATURE	Oxford Nanopore set for blockbuster IPO
28	SECTOR REPORT	The case for cannabis: how to access an emerging investment opportunity
32	FEATURE	Our stock picks for 2021 are outpacing the market
35	FEATURE	Dual-class share structure may be an imperfect but necessary option
38	MONEY MATTERS	Give your portfolio a spring clean
41	ASK TOM	What are the benefits of deferring my state pension?
43	INDEX	Shares, funds, ETFs and investment trusts in this issue

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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

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



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which natural gas represents an alternative to reduce greenhouse emissions.

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Europe powers ahead in 2021 as banks and carmakers beat tech

Germany's DAX has hit an all-time high while the UK and China lag behind, along with the US' tech-heavy Nasdaq index

Despite a troubled vaccine rollout programme in both countries, Germany's DAX 30 and France's CAC 40 have been the stock market stars on the global stage so far in 2021 as investors move away from tech stocks and into cheaper industrial names.

A 9.4% first quarter rise in the DAX has led it to hit all-time highs thanks to its significant weighting towards banks and carmakers, with the latter particularly causing excitement among investors as a cheaper alternative to Tesla.

Some of the biggest names in the DAX include BMW, Mercedes-Benz maker Daimler and Volkswagen, three car manufacturers that have seen big gains year-to-date as they transition towards electric vehicles.

Volkswagen in particular has shone with a 62% gain to €239 year-to-date, with the shares soaring after its Tesla-like 'Power Day' where it unveiled grand plans to investors for a big push into electric vehicles.

France's CAC 40 has also had a standout quarter with a 9.3% gain despite a third wave of coronavirus infections in the country and another national lockdown, thanks to both unexpected rises in French consumer confidence and the rise in bond yields, which investors think will be good for its banking stocks. The likes of AXA, BNP Paribas, Crédit Agricole and Société Générale make up a significant chunk of the index.

Away from Europe, Japan has been the next best performing developed market with a 6.3% first quarter gain from its benchmark Nikkei 225 index, as the country's vaccine rollout gathers pace and continued monetary and fiscal stimulus reassures investors.

In the US, improving sentiment over an economic



Major stock markets' 2021 first quarter performance

DAX 30 (Germany)	9.4%
CAC 40 (France)	9.3%
Euronext 100 (Mainland Europe)	8.3%
Dow Jones (US)	7.8%
Nikkei 225 (Japan)	6.3%
S&P 500 (US)	5.8%
Hang Seng (Hong Kong)	4.2%
FTSE 100 (UK)	3.9%
Nasdaq (US)	2.8%
Shanghai Composite (China)	-0.9%

Source: SharePad

recovery and various stimulus plans including on infrastructure from the Biden administration have helped the Dow Jones and S&P 500 record strong quarters, while the tech-heavy Nasdaq has lagged behind with investors rotating into industrials and financials as cheaper options for earnings growth.

On the home front, the FTSE 100 has had an underwhelming first quarter with a 3.9% gain, one of the lowest among the world's major stock markets, having been held back by its miners and oil companies, which make up a big chunk of the index. Chinese stocks, lauded by global investors for their multi-decade growth potential, have not done well in the short-term and are down this year as rising regulation, a crackdown on Chinese firms with overseas listings and more tensions with the US all dampen sentiment. [YF]

Beverages sector poised for summer of socialising, sodas and snacks

The reopening of out-of-home channels should stir sales recovery for soft drink makers and suppliers

With prime minister Boris Johnson sticking to his roadmap and jabs being injected into the arms of a grateful global population, the grand economic reopening that beverage businesses have been clamouring for since the pandemic clobbered the sector is upon us.

As out-of-home sales channels such as hotels, restaurants, pubs, bars, cinemas and entertainment venues including sporting stadia spring back into life, soft drinks makers should profit as thirsty populations emerge from lockdown around across the globe and hot weather stirs sales recovery.

Across the pond, shares in PepsiCo have perked up from \$128.8 in early March to \$143.2 at the time of writing as the market discounts the benefits of the reopening on the organic growth prospects of the snacks and drinks behemoth.

While the social hibernation caused by the pandemic boosted sales of PepsiCo's snacks including Doritos and Cheetos, a summer of sun, sport and socialising could drive strong sales



of brands including Walkers crisps and Pepsi-Cola, not to mention Gatorade, Mountain Dew and Tropicana.

PepsiCo's arch-rival The Coca-Cola Company has an even greater exposure to out of home channels and the James Quincey-steered drinks colossus has several brands positioned to benefit including Coca-Cola, Diet Coke, Sprite and Fanta as well as coffee brand Costa and mixers brand Schweppes.

UK stocks connected to Coca-Cola include strategic bottling partners **Coca-Cola HBC (CCH)** and **Coca-Cola European Partners (CCEP)**.

Lower down the market cap spectrum, resilient soft drink-to-ready-made cocktail maker **A.G. Barr (BAG)** has seen a robust performance through major retailers during the Covid crisis and could also benefit from the reopening of the on-site hospitality market and the recovery in high street and hospitality footfall.

Unsurprisingly, the Irn-Bru-to-Strathmore water supplier posted a fall in revenue and earnings for the year ended 24 January 2021 and said the immediate outlook remained 'uncertain', yet AG did suggest it plans to restart dividends during the current financial year.

Other beverages names tied to reopening include **Britvic (BVIC)**, the company behind Wimbledon's signature tipple Robinsons, Fruit Shoot and Tango, which also produces and sells Pepsi, 7UP and Lipton Ice Tea in Britain and Ireland under exclusive agreements with PepsiCo, not to mention **Nichols (NICK:AIM)**, the robustly financed company behind the Vimto brand. [JC]

Beverages reopening beneficiaries

Company	Share price	Market cap	Forecast PE	Dividend yield (%)
PepsiCo	\$143.2	\$197.6bn	23.7	3
The Coca-Cola Company	\$52.8	\$227.6bn	24.6	3.2
Coca-Cola HBC	£23.38	£8.43bn	18.8	2.5
A.G. Barr	495p	£554.5m	20.6	2.6
Britvic	834.5p	£2.2bn	18	3
Nichols	£13.33	£491.7m	32.3	2

Source: Refinitiv, London Stock Exchange. PE=price-to-earnings.

Investors upbeat on holidays return but analyst shares TUI fears

Travel stocks gain on government's traffic light system, while Berenberg shares big concerns over indebted operator

Travel stocks have reacted positively as the Government confirmed plans for a traffic light system to allow international travel to resume.

The current restart date for international travel and holidays abroad is 17 May, and from that date there will be a list of green, amber and red countries whereby travel to and from green countries will require no isolation period, amber countries will likely require a 10-day quarantine but early release with a negative test and red countries where a 10-day quarantine will be mandatory regardless of Covid status.

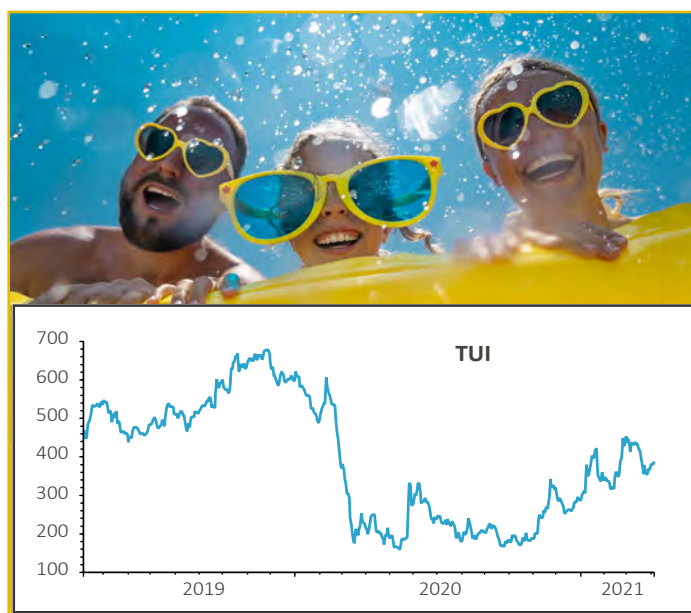
Given popular destinations like Portugal and Malta are set to be on the 'green list', investors were relatively upbeat on the return of holidays with shares in tour operators **TUI (TUI)** and **Jet2 (JET2)** and British Airways owner **International Consolidated Airlines (IAG)** up over 2% the day after the announcement, while online package holiday provider **On The Beach (OTB)** soared more than 7%.

However, the reaction wasn't as positive as it might have been with details over amber countries still unclear. Covid-19 and vaccination rates mean the likes of Spain, Greece and Turkey – where TUI and Jet2 in particular make most of their money – are likely to be put on the 'amber list'.

More details will be provided by the Government following the release of a report from the Global Travel Taskforce on 12 April, but travel industry bosses reacted with dismay to what they called a lack of clarity from Government.

A lack of clarity is also what has led analysts at broker Berenberg to share significant concerns regarding TUI.

The analysts say: 'We continue to believe TUI



faces an uncertain future with a capital structure which is unsustainable, significant debt maturities rapidly approaching, doubt about the resumption of operations and continued meaningful cash burn.'

TUI currently has net debt of over €7 billion, putting it on a highly uncomfortable forecast net debt to earnings ratio of six times for 2021. Ratios of three or less are typically considered sustainable.

The Anglo-German firm is betting heavily on a recovery in foreign holidays this summer but is a prime candidate to raise more cash to stay afloat. As of 3 February, it had €2.1 billion in liquidity and monthly cash burn between €250 million and €300 million.

For all the concerns over TUI, there's an argument in Germany that the company is seen as 'too big to fail', having been bailed out by the German government three times so far during the pandemic and received almost €5 billion in state support. [YF]

Medica is on a high quality growth path



Teleradiology firm has invested in its technology platform to increase efficiency and accuracy

The new management team at teleradiology specialist **Medica (MGP:AIM)** have reinvigorated the business and energetically executed a clear growth path to diversify revenues and enhance earnings quality. Investors should buy into this story.

Meanwhile, in the core teleradiology business, Covid-19 has caused a huge backlog in elective procedures and images. This pent up demand will almost double the shortage of NHS radiologists which in turn will drive growth in the outsourced radiology services that Medica provides.

According to analysts at Liberum the company's out of hours Nighthawk service, which is exclusive to Medica, and its Elective business will grow by a combined 14% a year out to 2025.

Including contributions from recent acquisitions, Liberum reckons Medica could grow earnings at a compound annual growth rate of 22% a year to 2025 which is not reflected in the shares which trade at a 35% discount to peers.

We believe the growth prospects for the business aren't fully appreciated by investors and expect the discount to peers to narrow.

MEDICA



(MGP:AIM) 150.2p

Market cap: **£182.4 million**

BENEFITS OF SCALE NOT APPRECIATED

Medica's nationwide network of consultant radiologists perform outsourced interpretation of MRI and CT scans under contract for the NHS and private hospitals.

As the largest player in the outsourced market, Medica offers scale and efficiency that other firms find hard to match which improves reliability and attractiveness to the NHS, creating a virtuous circle.

It also makes Medica more attractive from the perspective of independent radiologists because the firm can offer higher visibility of work and an unrivalled national footprint.

A new operating system should create greater productivity for radiologists and more granular 3D imaging to improve accuracy to the NHS.

IMPROVING EARNINGS QUALITY

The diversification strategy has quickly taken shape. In late 2020 Medica purchased market leader Global Diagnostics Ireland

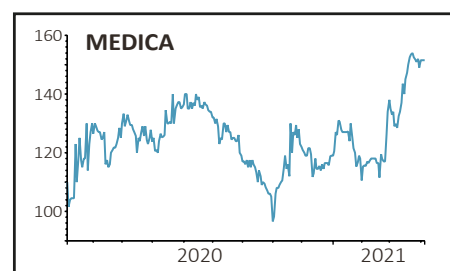
which as well as providing traditional radiology services also generates eye-based health scanning revenues.

In February the company signed a joint venture with Integral Diagnostics which operates in the Australian and New Zealand markets. The deal will allow both companies to offer NightHawk services to each other at lower cost to take advantage of the time difference.

The company's latest move was the proposed £16.1 million acquisition of US based RadMD which specialises in the imaging contract research business. This market is valued at around \$1 billion, some three-times larger than the UK radiology market.

RadMD operates a high-quality platform and achieves around 90% repeat business while it is growing fast with an order book worth four times 2020 revenues.

A strong rebound in UK elective procedures and increasing international exposure lays the foundation for growth and better-quality earnings, which are less reliant on the NHS. [MG]



Buy remote IT connector TeamViewer at a pre-pandemic price

The German software company is a quality tech growth business

Ask a Manchester United fan where they're from and the least likely answer will be Manchester, or so the football joke goes. The club now has a new fan after German technology company TeamViewer announced a five-year shirt sponsorship deal with the club worth a rumoured €275 million.

We have no idea whether this will be an astute bit of marketing, but the deal sparked a sell-off in the stock that we believe presents a fantastic entry point, an opportunity to buy TeamViewer at pre-pandemic prices.

Investors were left in a huff because of the drag on profit margins in the near term. Management admitted that the Man Utd deal will cut its adjusted earnings before interest, tax,

TEAMVIEWER

BUY

€37.38

Market cap: €7.55 billion

depreciation and amortisation (EBITDA) margins to around 49% to 51% this year (to 31 December) having previously guided for a 55% to 57% range.

Yet this is part of a wider investment in growth that should pay-off handsomely down the line, using the pandemic's work from home new normal to drive home its

advantages. And it has plenty of those.

The German company has built a real-time remote connectivity platform that lets IT experts take control of devices (PCs, laptops, smartphones etc) to solve problems or to enable people to connect and collaborate from home, different office locations or anywhere else, while the organisation maintains control of its core IT.

REMOTE ACCESS BOOM

If you've ever had to call your work IT support team for help and had them take over your device virtually to find a fix, you may well have used TeamViewer, even if you didn't know it. Founded in 2005, TeamViewer's remote software has been installed in more than 2.5 billion

Teamviewer's short-term profit margin pressure

Adj EBITDA margin



*2021 and 2022 figures forecasted

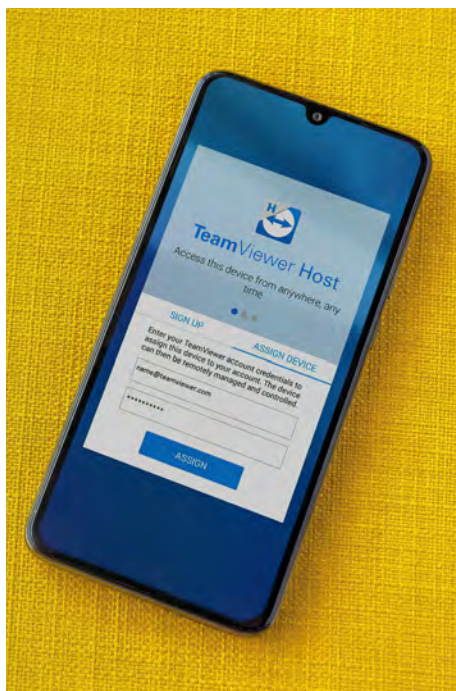
Chart: Shares Magazine • Source: Berenberg • Created with Datawrapper

devices worldwide and its tools are in action on up to 45 million users at any given time.

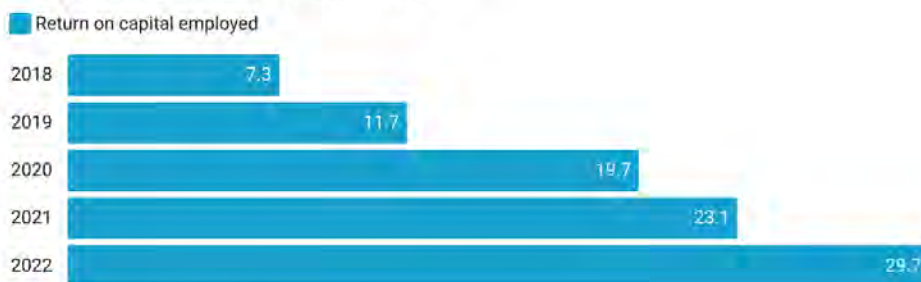
Private equity firm Permira brought the company to the Frankfurt Stock Exchange in September 2019 with a €5.25 billion price tag, selling 42% of its stake to investors at €26.25 per share. Permira has continued to release shares into the market over the past year or more, most recently last month, leaving it with a stake of just below 20%.

Like so many tech firms, Covid has made investors suddenly appreciate TeamViewer's digital growth potential, with the stock hitting a record €51.48 last July, and rallying to close on €50 again earlier this year, before investors went off growth stocks thanks to inflation fears.

That the company is willing to plough significant sums into innovation is encouraging because remote IT support is far from competition-free. Industry heavyweights like of Microsoft, Citrix, LogMeIn and others operate in this space.



Improving use of cash flow



2021 and 2022 figures forecasted

Chart: Shares Magazine • Source: Berenberg • Created with Datawrapper

Many analysts, however, think TeamViewer leads the way as the high-quality, large bandwidth, all-in-one platform to connect, manage and interact.

A study by independent global quality assurance company Qualitest found TeamViewer compatible with significantly more device types than peers, and the internet bandwidth scale to send large raw data files at significantly faster speeds.

The wider remote support market is also rapidly expanding, not least because of the scope for enormous connected device expansion as the Internet of Things world gets bigger. A McKinsey report estimates that the size of the remote connectivity platform market will triple by 2023 from €10 billion in 2018.

Analysts at Berenberg believe TeamViewer's total addressable market will expand to €40 billion over the same timeframe. This will be driven by the company widening its customer base, deepening its sales and marketing pool, and adding new tools around areas like augmented reality, such as its recent acquisition of Ubimax.

SCALABLE BUSINESS MODEL

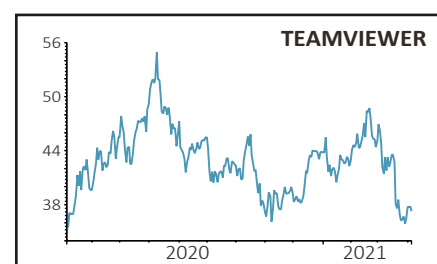
This is an easily scalable business

model that should throw off lots of free cash flow and deliver very attractive 50% average profit margins over the long-run. That should mean strong growth, excellent cash flows and an improving track record when it comes to using that cash for value creation.

Return on capital employed, a measure of how effectively the company spends its cash, has more than doubled on 2018's 7.3%, and is forecast to improve to nearly 30% over the next couple of years.

Things like cybercrime, changes to data privacy regulation and IT infrastructure faults could potentially slow TeamViewer's growth, yet managing these sorts of risks are part of TeamViewer's knitting.

Given the recent slide, the stock is trading on a 12-month forward price to earnings multiple of 56, according to Refinitiv data, although that will fall to 34 by 2022 if Berenberg numbers are right. [SF]



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MICRON TECHNOLOGY

\$93.75

Gain to date: 16.1%

Original entry point:

Buy at \$80.72, 21 January 2021

THE MICROCHIP industry has been on a tear for months but the backcloth promises to get even better for semiconductors powerhouse Micron Technology

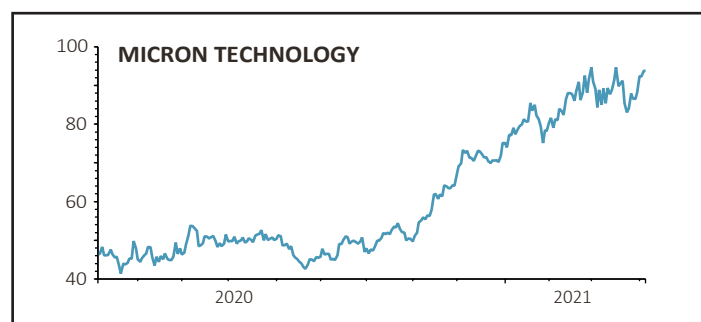
Micron is among the world leaders when it comes to memory, both dynamic random-access memory which helps digital devices work faster, and flash memory, used for storage.

In a world moving ever more swiftly to the cloud, better, bigger, faster and cheaper memory will be a vital enabler, so the Biden administration's commitment to spend \$50 billion to address supply constraints, and maintain global leadership in the face of Far East competition, comes as a real boost.

The announcement was well-timed, with Micron also reporting second quarter (to 28 February 2021) earnings that beat estimates thanks to particularly strong demand in mobile, industrials, and automotive sectors.

The company forecast a strong Q3 as DRAM demand continues to outpace supply. Interestingly, the company does not plan to throw its money willy-nilly into capacity expansion, sticking to its 'conservative' capex plenty of demand down the line and firm pricing.

Up more than 16% in only a little more than two months, we continue to believe there is further 2021 upside to be had.



SHARES SAYS: ↗

A great play on the current semiconductors shortage, with longer-term attractions too. [SF]

BLOOMSBURY

PUBLISHING (BMY) 298p

Gain to date: 5%

Original entry point:

Buy at 283.84p, 4 February 2021

OUR POSITIVE CALL on publishing group **Bloomsbury (BMY)** is off to a solid start thanks to a bullish trading update on 24 March.

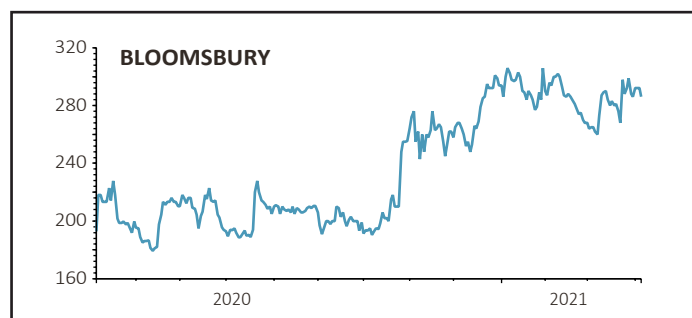
The company said it expected annual revenue and profit to be 'significantly ahead' of upgraded market expectations on exceptional sales performance in February as the reading boom continued.

'The popularity of reading during lockdown is a ray of sunshine in an otherwise very dark last year,' the company said.

'February, the final month of our financial year, saw an exceptional sales performance for Bloomsbury as the surge in reading continued. We do not yet know how consumer behaviour will change as academic institutions, shops and leisure activities re-open and whether this popularity will continue as restrictions are lifted,' the company added.

Numis analyst Steve Liechti commented: 'Fundamentally we see Bloomsbury as an interesting asset with better growth vs recent history given more aggressive management of its Consumer assets, and good momentum in digital platform driven A&P (academic & professional).

'An interesting "problem" is a relatively inefficient looking balance sheet, after much better cash flow performance through Covid-19 vs initial fears, and the pre-emptive placing in April 2020.'



SHARES SAYS: ↗

Keep buying. [TS]

VOLUTION

(FAN) 400P

Gain to date: 121.6%

Original entry point:

Buy at 180.5p, 9 July 2020

VENTILATION PRODUCTS firm **Volution (FAN)** has been a superb performer since we added it to the *Great Ideas* portfolio last summer.

We were right to conclude that demand for its portfolio of solutions would be supported by Covid-19 with the latest evidence coming in the form of very strong first half results (11 Mar).

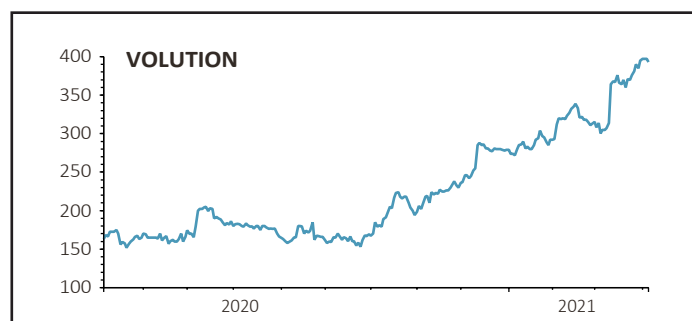
The company upgraded forecasts alongside the numbers which showed that for the six months ended 31 January 2021, pre-tax profit increased by 18.8% to £14.2 million year-on-year.

Volution provided an interim dividend of 1.9p per share, citing strong profitability, free cash generation and confidence in its prospects.

In a recent initiation note on the company Irish stockbroker Davy observed: 'Ventilation and air quality are of increasing importance to modern society and the expanding Volution is a leader in this category.'

'There is a deepening international dimension to its operations plus the group's ambition is supported by consistently high free cash flow.'

'It successfully navigated the challenges related to the pandemic, and we believe Volution can increase earnings by an average of circa 20% per annum between 2020 and 2023.'



SHARES SAYS: ↗

Still a buy. [TS]

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RENEWI

(RWI) 49P

Gain to date: 105%**Original entry point:****Buy at 23.95p, 19 November 2020**

OUR CALL TO back the self-help programme at Anglo-Dutch waste management firm **Renewi (RWI)** has paid off faster than we expected, more than doubling our money in less than six months.

With no shortage of good ideas out there we think it is time to book profit and move on.

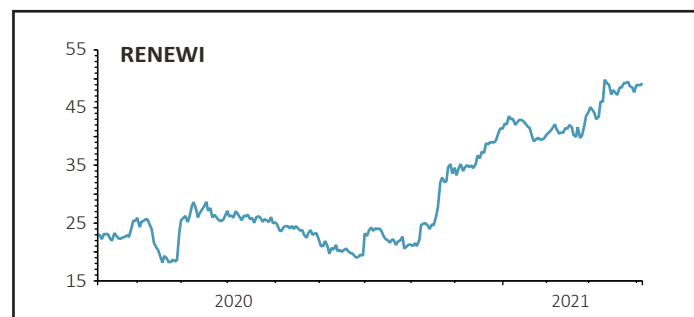
Volumes in the Minerals and Waste division have grown as hoped, while cost savings from the Renewi 2.0 programme are flowing through and earnings for the year to the end of March are set to hit the firm's upgraded guidance.

Going forward, the firm expects another year



of overall waste volumes below pre-pandemic levels in the Benelux region but says it's too early to assess the financial impact.

Meanwhile, the increase in margins from the shift from incineration to more sales of high-grade secondary building materials will take time, as will the recovery of lost sales at the hazardous waste unit.

**SHARES SAYS:** 📉

After such a dramatic re-rating of the shares, and with a tough year still in prospect, it's time for us to bank our winnings and move on. Though long-term investors may want to book some profit and keep at least portion of their position running. [IC]

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www.sharesoc.org**Web Events****APRIL/MAY 2021**

TITLE	Type of event	Date	Link to register
STRIX GROUP PLC (KETL)	Company Webinar	20 Apr 2021	Click here to register
DIURNAL (DNL)	Company Webinar	27 Apr 2021	Click here to register
CENTRAL ASIA METALS PLC (CAML)	Company Webinar	13 May 2021	Click here to register
LLOYDS BANKING GROUP PLC (LLOY)	ShareSoc/Yellowstone Company Webinar	24 May 2021	Click here to register

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OUR SIMPLE, NO STRESS ISA PORTFOLIO

Four funds to set you up for life



By Yoosof Farah Reporter

The new tax year is now underway, which means you're able to fill up your ISA again with another £20,000.

For those just starting out who want to put their money to work in the markets but aren't yet confident enough to pick their own stocks, we have come up with a portfolio of exchange-traded funds (ETFs) which offer a simple, no-stress option which could set you up for the long term.

ETFs are an excellent option for a beginner investor. An ETF is a type of investment that simply tracks an index, like the FTSE 100 for example, and so mimics its returns. That means they are low cost compared to an actively managed fund, where a fund manager picks out the stocks or bonds they think will outperform the rest of the market.

FUND MANAGERS DON'T ALWAYS OUTPERFORM

However fund managers don't always outperform, and their higher fees can eat into your returns, something which is less of an issue with ETFs.

Once you are further along in the world of investing and have a better understanding of how the markets work, and are able to compare the track records of different fund managers, then actively-managed funds could well become a good option for your portfolio.

ETFs also give you that all important diversification, so if one or a few investments in the ETF perform badly, there will typically be many others which perform better to offset the losses.

More often than not ETFs give you better diversification than actively managed funds, which tend to have fewer holdings in their portfolios.

That's also why it's best to avoid investing in individual stocks until you understand the ins and outs of the stock market, because putting all your money in one or a few stocks leaves you a lot more exposed to the whims of the stock market and investor sentiment and gives your money none of the protection provided by having a diversified portfolio via ETFs or funds.

So as you embark on your investment journey, here is the simplest starter portfolio ever for your ISA. Four ETFs is all you need.

PORTFOLIO FOR YOUNGER INVESTORS

For someone who's in their 20s, 30s or 40s and has time on their side to invest for the long-term, it is worth opting for ETFs that give you access to all the important stock markets in the world that offer the best growth potential.

We've chosen to ignore bond ETFs and dividend-paying ETFs as someone who has more time on their side can afford to take more risks and keep their money invested for longer in order to smooth out the ups and downs stock markets always go through. Stocks also typically provide better returns over the long term compared to bonds, albeit with more volatility.

ISHARES CORE MSCI WORLD (SWDA)

What better way to get started with investing than to buy an ETF that puts your money to work in stocks all over the world?

The MSCI World index is the most commonly used index to track companies in all the developed markets across the world and with well over 1,000 stocks in there it's certainly diversified.

More than anything it's a play on the US, which makes up 66% of the index and has all the big US tech stocks in its top 10 holdings – together they alone make up 10% of the index – so you'll feel the benefit if the likes of Apple, Amazon, Facebook, Microsoft, Tesla and Google owner Alphabet continue to perform strongly in future.

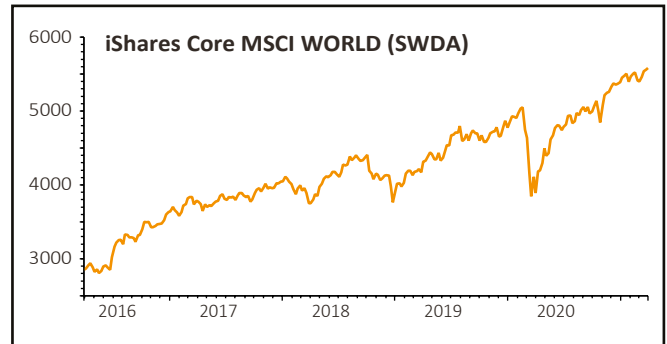
Its present bias towards growth companies means it may not shine in the short-term when value stocks are in favour.

This is reflected in a return of just 1.6% so far year-to-date as the value rally continues. However, over the longer term it should deliver strong performance and indeed has a five-year annualised return of 14.73%.

There is also the benefit of not having all your eggs in one basket as the index also includes stocks from the UK, Japan and other countries like France, Germany and Canada.

The best ETF to pick to follow the index would be **iShares Core MSCI WORLD (SWDA)**, which is one of the cheapest options with an annual fee of just 0.2% of your invested cash,

and also has the lowest cost between buying and selling due to its highly liquid nature – the ETF holds \$34.3 billion of investors' money.

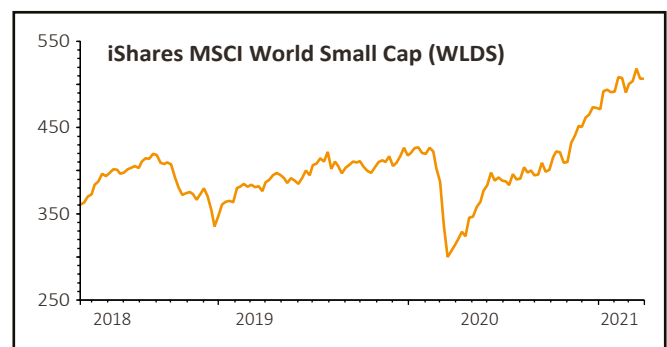


The specific 'SWDA' version has been picked because this is the GBP share class. It's important to always pick the GBP version to avoid any unnecessary foreign exchange charges for converting US dollars into pounds for example. For all ETFs mentioned in this article we've picked out the GBP share class.

ISHARES MSCI WORLD SMALL CAP (WLDS)

Global small cap stocks have outperformed their mid- and large-cap counterparts on average over the last decade, and could be a good option to potentially add some decent growth to your portfolio.

There is always the risk they will do worse than their larger peers when stock markets go through turbulent periods where performance is volatile but over a market cycle of at least five years their better growth potential than large and mid-caps could be realised.



The best option here would be **iShares MSCI World Small Cap (WLDS)**, which follows the MSCI World Small Cap index and is one of

the cheapest options to track global smaller companies with a 0.35% annual fee.

Again the index has heavy exposure to the US which makes up 60% of the index, and the stocks in it aren't exactly small by UK standards with the average market value of each constituent in the index standing at just over \$1 billion.

But they are certainly small compared to giants like Amazon and Tesla, and many have been in favour so far in 2021 as global investors look outside the big names to find growth.

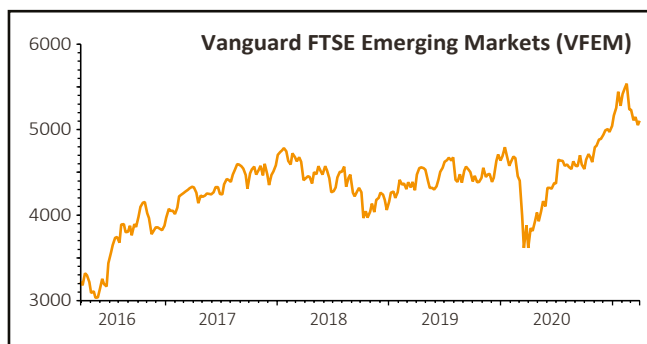
VANGUARD FTSE EMERGING MARKETS (VFEM)

Given they're based on some of the fastest growing economies on earth, having exposure to companies in your portfolio from emerging market countries is a good idea.

There are risks with these markets, considering they are still emerging and can frequently encounter teething problems as they develop, but someone willing to ride out volatility over the long term could potentially see some very decent growth from their investment.

ETFs are among the best ways for a beginner investor to access emerging markets, as they give you the diversification of emerging markets across the world and not just a specific region like many actively-managed emerging market funds.

One of the best ETFs to pick for emerging markets exposure is **Vanguard FTSE Emerging Markets (VFEM)**, a popular ETF which is one of the cheapest ways to access these high growth markets with a low ongoing cost of 0.22% a year.



Most ETFs track the MSCI Emerging Markets Investable Markets index, but the Vanguard one tracks the FTSE Emerging Markets index.

Both indices have a lot of their exposure to China, but the FTSE one has a greater allocation to Chinese stocks at 44.5% of the index compared to 36.6% for the MSCI one, and also has a higher weighting towards technology stocks.

This in part reflects the fact that, unlike MSCI, FTSE considers South Korea to be a developed rather than an emerging market.



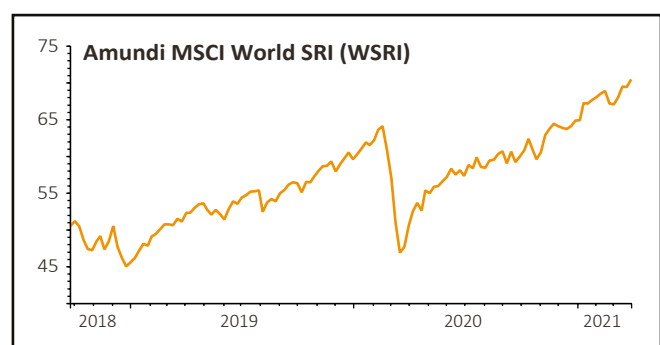
AMUNDI MSCI WORLD SRI

In the investment world, investing ethically is becoming less and less of a niche thing propagated by unheralded trailblazing fund managers, and more and more a de facto part of the general investment process.

However, picking an ethical ETF that puts money to work in the way you want it to and conforms to the spirit of the environmental, social and governance (ESG) criteria created by the investment industry can be something of a minefield.

No option we pick here is perfect, but one good option could be **Amundi MSCI World SRI (WSRI)**, which focuses on something called SRI, meaning socially responsible investing, and has an annual charge of just 0.18%.

The ETF follows the MSCI World SRI index, which screens out stocks involved in thermal coal, nuclear power, tobacco, alcohol, gambling, military weapons, civilian firearms, genetically modified organisms and adult entertainment. Ethical criteria are then applied to the remaining stocks and the top 25% left over are then picked to go into the index.



PORTFOLIO FOR SOMEONE CLOSER TO RETIREMENT

For someone in their mid-50s onwards who's looking to get started in investing and put their ISA money to work, but perhaps doesn't quite have the same amount of time to ride out all of the volatility in stock markets over a few market cycles, we suggest still buying both the iShares Core MSCI World ETF and the iShares MSCI World Small Cap ETF, but adding a bond ETF to offer portfolio protection against volatility and a dividend-paying ETF to offer some income.

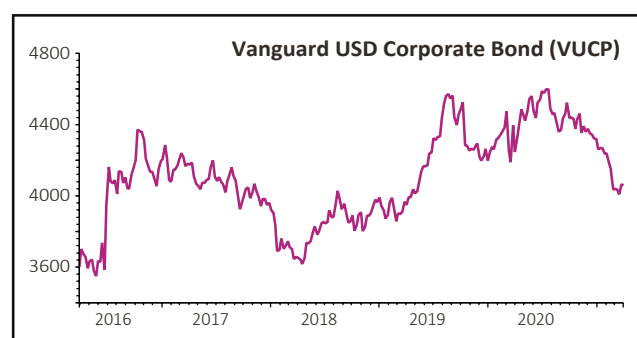
VANGUARD CORPORATE BOND (VUCP)

A lot of investors when thinking about investing in bonds might immediately turn to gilts, i.e. UK government bonds. While they have often been seen as something of a safe haven investment, gilts don't exactly offer a great return on your investment.

One way to get some of the safety that bonds provide, but still actually see some decent returns on your investment could be through investing in corporate bonds, which are bonds issued by companies.

One of the most popular options for investors looking to access corporate bonds has been **Vanguard USD Corporate Bond (VUCP)**, which has a charge of just 0.09% a year and offers access to over 5,500 investment grade company bonds.

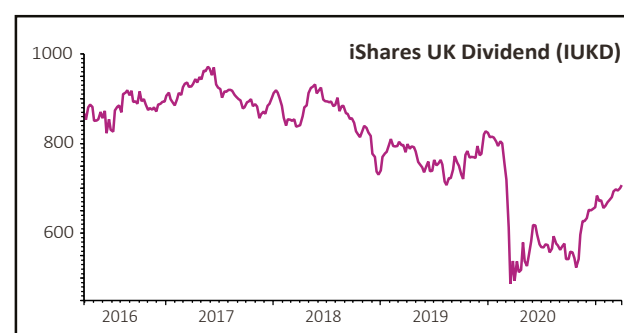
These include bonds from the likes of AT&T,



Verizon, Comcast, Citigroup and Budweiser maker Anheuser-Busch InBev – all companies which the top credit rating agencies think are unlikely to default on their borrowings.

ISHARES UK DIVIDEND (IUKD)

The UK stock market has the highest dividend yield by country according to data from Sibilis Research with an average dividend yield of 4.66% from the FTSE All-Share, and with dividends back on the menu again from FTSE 100 and FTSE 250 companies adding some home market exposure marks sense.



The most popular ETF in this regard has been **iShares UK Dividend (IUKD)**, which currently offers a 4% yield with dividends paid quarterly. It does have a relatively pricey ongoing charge for an ETF with an annual fee of 0.4% a year, but contains a lot of strong, reliable dividend-payers including utilities **National Grid (NG.)** and **SSE (SSE)**, and miners such as **BHP (BHP)** and **Rio Tinto (RIO)**, which are currently paying out hefty dividends with yields of more than 6% on the back of booming commodity prices.

UK stocks have also been considered cheap by global standards and with value stocks set for a good 2021, the ETF also has the potential to offer capital growth as well, particularly given the combined price-to-earnings ratio of its holdings stands at a lowly 10.6 times.

HOW MUCH £2,000 INVESTED WOULD NOW BE WORTH

ETF	Shares bought 5 years ago	Shares bought 10 years ago
iShares Core MSCI World	£3,911.60	£5,979.16
Vanguard FTSE Emerging Markets	£3,165.72	N/A
Vanguard USD Corporate Bond	£2,231.35	N/A
iShares UK Dividend	£1,630.37	£1,877.40

Source: Shares, Refinitiv. N/A = not available as this version of the ETF was not launched at that time

SHARES

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Trusts regularly raising cash to invest in assets can hamper returns

Some investment companies consistently dilute shareholders in the pursuit of growth

On the face of it, investment trusts and other vehicles which invest in long-term assets with long-term cash flows should be a sound investment, especially if there is an element of growth either in asset values or dividends.

For example, renewable energy infrastructure projects – which are set to grow exponentially as companies and governments around the world target zero carbon emissions by 2050 – ought to be a reliable source of returns for investors.

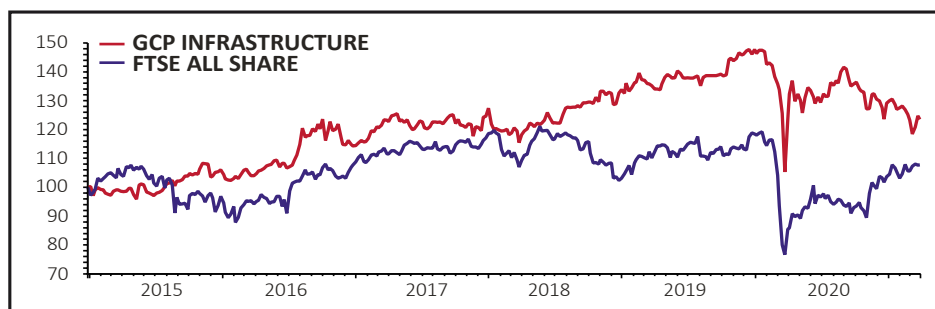
GCP Infrastructure (GCP), a



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£900 million investment vehicle run by Gravis Capital, invests in wind and solar assets (41% of the portfolio in the year to last September) along with hydro power, anaerobic digestion and biomass energy (roughly another 20%). The balance of the portfolio is invested in supported living and private finance initiative projects.

The fund buys loans issued by companies raising money

to build projects, and as of last September the average yield on the portfolio was 8.1% while the average life of the loans was 15 years.

TOO GOOD TO BE TRUE

This sounds like a great business, getting an 8% yield in a world where bank base rates are close to zero and trillions of dollars of debt trade at negative interest rates.

Yet shareholders in GCP Infrastructure probably don't feel much like celebrating. Since 2015 the share price has gone from 120p to 102p while the company has raised close to £450m in new shares resulting in massive dilution of earnings. Remember every time new shares are issued the value of the existing shares is diminished.

Fortunately, net asset value per share is slightly higher than in 2015 but that's not much comfort for investors.

On a total return basis the shares may have beaten the All-Share but last year's dividend was barely covered. There are plenty of slides with the full year results explaining the portfolio challenges and risks, but the

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Actual Investors

bottom line is, even with the dividend stream, the shares haven't been a great investment.

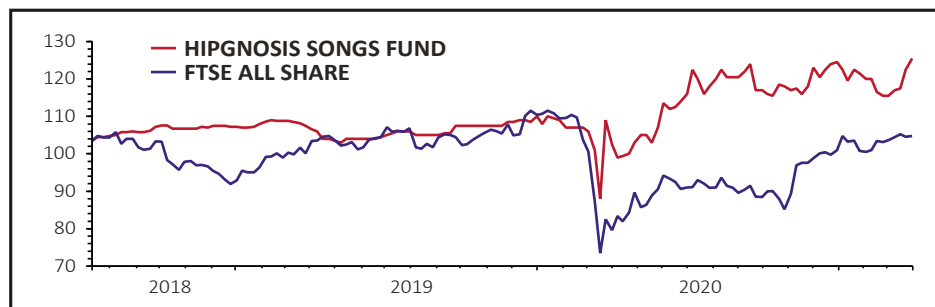
Investors should probably also weigh up the potential impact of rising gilt yields. As the 'risk-free' interest rate rises, so does the rate at which future cash-flows are discounted, which makes long-duration assets like infrastructure loans less attractive.

A LOOMING TIPPING POINT

Analysts at Stifel believe the tipping point for the infrastructure sector would be a 10-year gilt yield of more than 2.5%, which seems a long way off when yields are currently below 1%, but the market has a habit of worrying about these things.

NextEnergy Solar (NESF) invests in solar photovoltaic assets. According to its website, every hour the world receives enough energy from the sun to power the entire planet for a year, so what's not to like?

Well, the share price for a start. Since 2015 the shares have declined in value, while the firm has raised £480 million in new capital – £200 million of which was in non-voting preference shares, which technically count as debt – and paid all its dividends in stock so there hasn't even been an 'income stream' as such, although investors can sell scrip shares once they have been



admitted to the market.

On the bright side, shareholders can bask in the success of its energy sales desk, and after the build-out this year of solar farms in Hampshire and Lincolnshire using £45 million of their money they can look forward to the firm hitting its target of 150 mega watt peak subsidy-free by 2022.

House broker Shore Capital salutes the firm's 'ability to develop attractive value-accretive opportunities in the UK subsidy-free space' and says it offers investors 'a highly attractive dividend yield and exciting growth prospects'.

SOUNDING A BUM NOTE

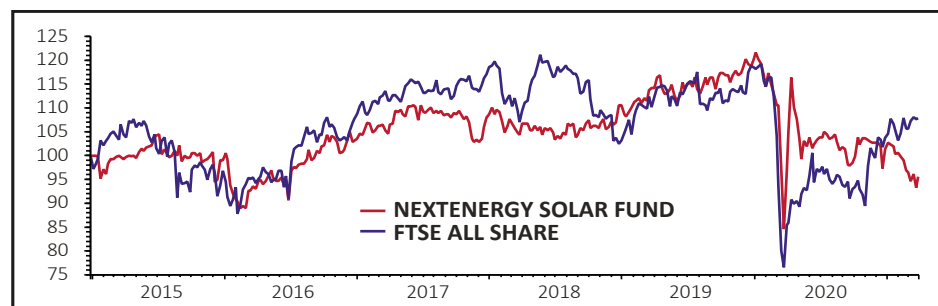
Another great business, on paper at least, is music royalties. Even with no live performances last year, cash flows from publishing rights grew thanks to the global uptake of music streaming and the use of hit records in films and commercials. Buying up song rights and getting paid every time they are played seems like a no-brainer.

Broker Liberum sees 'considerable upside for revenue growth over the long term' through new platforms like Peloton and Tik Tok, while rising acquisition prices are good for asset values but could crimp future returns.

In theory, therefore, shareholders in **Hipgnosis (SONG)** should have made an absolute mint. Except they haven't. Since they listed in 2018, shares in the fund have gained just over 20%, which is better than the All-Share but hardly commensurate with the growth story or the firm's voracious appetite for content.

Since it floated, by our calculations Hipgnosis has raised £734 million in new shares and ramped up its banking facilities from £150 million to \$600 million. It has also bought up dozens of catalogues, lifting net asset value per share from 98.7p in 2018 to 116.7p last year.

Essentially, as long as shareholders and its banks are happy to stump up the money the firm can keep on hoovering up music rights ad infinitum. This may help sustain a growing dividend but holders need to be mindful of the accompanying dilution this would imply.



By Ian Conway
Senior Reporter

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1. As rated by Willis Towers Watson. 2. Willis Towers Watson directly manages \$148.6 billion for institutional investors, as at 30 June 2020, and advises them on \$3.4 trillion, as at 31 December 2019. 3. MSCI All Country World Index.

Oxford Nanopore set for blockbuster IPO

Core investor IP Group could see a major uplift in valuation

Scientific technology firm Oxford Nanopore, which spun out of the University of Oxford in 2005, surprised the market with the recent announcement it is looking to float in London in the second half of 2021.

The firm, which makes next generation DNA/RNA sequencing technology, says its aim is 'to disrupt the way that biological analyses are currently performed, and open up new applications that have a profound, positive impact on society' by allowing 'the analysis of any living thing, by anyone, anywhere'.

On its website, Oxford Nanopore said it had raised £613 million in several funding rounds since 2005 and was

'currently well funded for the next phase of corporate development'.

It came as some surprise, therefore, when the firm announced to its shareholders it had started the process of preparing for a potential IPO in London in order to access 'deeper, international pools of capital' to finance its growth.

Intellectual property business **IP Group (IPO)**, which seeded the original university spin-out in 2005, is a core investor in the company and holds a 15% stake which its website says is valued at £340 million. On that basis, Oxford Nanopore would have an implied valuation at IPO of £2.27 billion.

However, analysts at

investment bank Berenberg believe the business could 'comfortably' float for north of £4 billion, according to *Bloomberg*. That would in turn value IP Group's stake at £600 million, meaning a 75% uplift to its current value. For context IP Group's current market value is £1.35 billion.

According to Oxford Nanopore 2020 was 'a pivotal year' for sequencing technology. 'The challenging events of 2020 demonstrated the importance of life sciences in understanding and improving the world around us. Our DNA and RNA sequencing technology is well-positioned for accelerated use across multiple applications.

'We are still only in the foothills of what is possible; we believe that there is huge potential for near-sample, rapid, low cost, sequencing-based analyses across scientific research, healthcare and industrial settings.

'These include the long-term potential to provide rapid biological insights in infectious disease, immune profiling and cancer, as well as in food safety, agriculture or other industrial environments.'



By **Ian Conway**
Senior Reporter

Some of the major stakes held by IP Group

Company	What it does
Actual Experience	Provides insight for businesses into the impact of remote/hybrid working on employees
Apcintex	Developer of new haemophilia treatment
Diurnal	Focused on developing fresh way of delivering drugs to help cortisol-deficient patients
First Light Fusion	Working on strategies to make fusion energy work
Ieso Digital Health	Online cognitive behavioural therapy specialist
Itesso	Developing drugs to reprogram metabolism to treat autoimmune disease
Oxbotica	Developing software to enable all vehicles to become autonomous
Oxford Nanopore	Focused on nanopore-based electronic systems for analysis of single molecules
Ultraleap	Technology to provide tactile feedback without touching or wearing anything

Source: IP Group, Shares

TIME TO INVEST IN VALUE



Hugh Sergeant, Head of Value and Recovery at River and Mercantile, discusses the opportunities in value investing.

WHILST, AS DISCUSSED in [our previous article](#), UK equities look good value at the moment, there are a lot of expensive stocks out there, often those which are 'growth' focused. The positive news is there are still lots of fantastic, cheaply valued opportunities for investors to take advantage of and we, at R&M, believe now is a good time to get excited about them.

In recent years, 'value' investing - investing in stocks which are trading at cheap valuations, often unreflective of the underlying company's value - has been unfashionable. Investors across the world have eschewed these slower burning companies for faster growing ones known as 'growth' stocks. A good example of this is the well-known FAANG (Facebook, Amazon, Apple, Netflix, Google (Alphabet)) companies and other fast-growing technology/social media stocks that have dominated the US stock market for some years.

Value investing has recently seen something of a resurgence, but we believe that this is just the

beginning of a longer-term comeback for good quality, cheaply valued stocks.

First, value stocks typically do well during an **economic recovery**. During a downturn, it is more difficult for the average company to grow and so there is a premium paid for companies with structural growth. But in a recovery environment, growth comes from a more diverse group of sectors and styles of stocks, so the premium paid erodes, and value stocks tend to do well.

Secondly, **valuations** are key. Not only are value stocks trading cheaply relative to their growth-based counterparts, but they are cheap in absolute terms. Investors have started to pick up on this, but there is still plenty of runway as scepticism around these cheaper companies' prospects erodes or animal spirits in corporate M&A emerge.

There is a third factor, **reflation**, which relates to economic growth. Value stocks are often the main beneficiaries of a return to modest inflation during a recovery. We will delve more deeply into this in our next article, published in 2 weeks' time.

The ES R&M UK Recovery Fund enables investors to have targeted exposure to those companies that R&M believe to have particularly strong potential to create value, following a period of depressed profits that could enable significant recovery. To find out more, visit [here](#).

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The case for cannabis: how to access an emerging investment opportunity

This sector has significant potential but investors need to be aware of risks and volatility

There are good reasons to be excited by the prospects for the global cannabis industry as more countries legalise recreational usage and a plethora of new medical applications are developed.

In addition, an increasing number of cannabis-based consumer products are slated to enter the market over the next few years which should help to bring cannabis into the mainstream.

According to consultancy Research and Markets the worldwide legal cannabis market was valued at \$20.5 billion last year and is projected to reach \$90.4 billion in 2026, representing a compound annual growth rate of 28%.

In this article we highlight a relatively low-cost way to get diversified exposure to the sector and discuss some of the key names in the UK and overseas.

LONG-TERM POTENTIAL EVEN BIGGER

The long-term potential for cannabis is potentially even bigger than has been forecast if you consider that the illicit



market is, according to some reports, worth around 10 times the legal market.

Despite the changing regulatory landscape, the negative image associated with cannabis, also referred to as weed or marijuana, still lingers.

It's still illegal to grow or distribute cannabis for recreational use in the UK and the authorities consider financing of such activities as the proceeds of crime. Medicinal cannabis was made legal in 2018.

LIMITED OPPORTUNITIES TO INVEST

For UK investors looking to get in on the strong growth prospects the listed choices are relatively scarce, although that will no doubt change. We discuss the merits of the existing plays later

in this article.

The countries which legalised cannabis first have the most developed cannabis industries. The largest and most advanced are Canada and the US, so that is where you can find the largest quoted companies.

It's often useful to look at countries which have already legalised to get an idea of the potential growth after legalisation.

After Canada legalised recreational cannabis in October 2018 (medicinal cannabis was legalised in 2002) it racked up C\$1.2 billion (£675 million) in sales, which more than doubled to C\$2.6 billion (£1.5 billion) in 2020.

Canada has around 275 cannabis growing businesses and 85 cannabis manufacturing enterprises.

MUSHROOMING INVESTOR INTEREST

The cannabis sector got a shot in the arm after the Reddit and WallStreetBets crowd chased cannabis stocks and indices following the merger of Tilray and Aphria, two of the largest cannabis companies.

Also influencing the run-up in stocks was speculation US president Joe Biden will soon legalise cannabis at the Federal level which would allow cannabis to move across state lines. (15 states have legalised recreational use, whereas 36 have legalised medicinal use).

Canadian based Tilray which is listed on Nasdaq with a market capitalisation of \$3.8 billion is merging with Canadian listed Aphria to create the largest cannabis operator with combined revenues of over \$600 million.

Tilray jumped 50% on the day

THE CANNABIS SECTOR - A SNAPSHOT

	Market cap (£m)	Sales 2021E (£m)
Canopy Growth	8,922	328
Jazz Pharmaceuticals	6,900	1,915
Aphria	4,000	393
Amyris	3,727	245
Tilray	2,750	211
Cronos	2,430	63
Organigram	747	53.4
Kanabo	82	0
MGC Pharma	66	7.3
Cellular Goods	51	0

Source: Refinitiv, Stockopedia

Note: market caps and sales calculated at exchange rates of GBP/USD 1.378 GBP/CAD 1.73.

of the news to \$66 before falling back by two-thirds at the most recent price. Other stocks which moved strongly include Canopy Growth, up 128% over the last 12 months and Aurora Cannabis, up more than 1,145% on the same time-frame.

Exchange traded funds have also been in demand with the

Rize Medical Cannabis & Life Sciences ETF (FLWG) doubling over the last six months and the **Medical Cannabis and Wellness ETF (CBDP)** surging by 82%.

In October 2020 the UK securities watchdog, the financial conduct authority said it would allow medicinal cannabis companies to list on the stock exchange, paving the way for companies to come to the market.

WHAT IS MEDICINAL CANNABIS?

PEOPLE HAVE KNOWN about cannabis for thousands of years and it is known to contain dozens of active substances that influence the brain and body.

The best known are Tetrahydrocannabinol or THC, Cannabidiol or CBD and Cannabinol. CBD is used for medical purposes and doesn't contain the psychoactive ingredient present in THC.

The effectiveness of cannabis is due to the natural way it interacts with the human body's own endocannabinoid system



which influences metabolism, energy balance, pain, emotional memory and appetite.

Researchers are studying cannabis for treating Alzheimer's disease, cancer, diseases of the immune system, epilepsy, glaucoma, multiple sclerosis, nausea and Crohn's which is a digestive disorder.

STRING OF RECENT IPOs

In early February 2021 **MGC Pharmaceuticals (MXC)** became the first medicinal cannabis company to list on the London stock exchange, with the shares advancing rapidly on debut. The shares have since given up a good chunk of those gains.

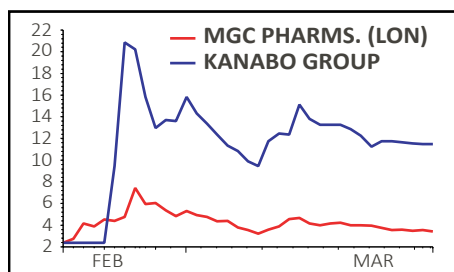
MGC is a biopharmaceutical company which is developing cannabis-based epilepsy and dementia drugs. It also has a Covid-19 drug called CimetrA which has been approved to go into phase three trials to evaluate efficacy and safety.

Shortly thereafter Israel-based medicinal cannabis company

Kanabo (KNB:AIM) joined the market via a reverse takeover and also saw big gains on its first day of dealings.

The group has developed the world's only medicinal cannabis vaporiser, designed to provide specific doses of cannabis extract without additives.

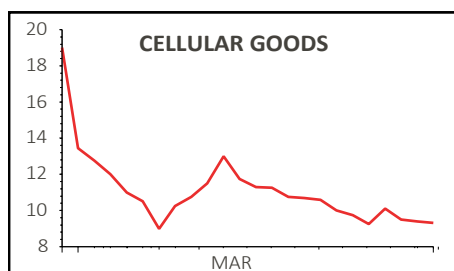
The increasing number of private clinics can now prescribe products like Kanabo's VapePod on an individual basis to alleviate chronic pain as well as neurological conditions.



David Beckham backed synthetic cannabidiol consumer products company **Cellular Goods (CBX:AIM)** became the latest cannabis company to list on the London stock exchange (26 February) valuing the company at £25 million.

Instead of cultivating cannabis sativa plants and extracting the oil as is done traditionally, Cellular has found a way to manufacture the cannabis in the laboratory.

This is a 'green' approach because it saves on water usage while also reducing cultivation from 200 days to seven. The company plans to use the money



raised at floatation to develop a range of skin care and sports recovery products.

Jersey based cannabis company **Northern Leaf** is planning to float on the London stock exchange later this year. It will grow cannabis from a 75,000 square foot greenhouse facility and expects its first harvest in the third quarter.

UK-based GW Pharmaceuticals was the first company to get a medical license in the US to sell Epidiolox, used for treating rare forms of epilepsy.

The company also sells cannabis extract for treating multiple sclerosis which is licensed for sale across many countries outside the US.

On 3 February GW was purchased by Nasdaq listed Jazz Pharmaceuticals for \$7.2 billion, in a cash and share transaction representing a 50% premium to the previous closing price.

Research by Prohibition Partners estimates that around 340,000 patients will be taking cannabis-based treatments by 2024 creating a market worth £2.3 billion.

LOWER RISK EXPOSURE

As we have discussed the biggest cannabis companies are in foreign territories and quoted in foreign currencies. This adds corporate governance and foreign exchange risk to the already considerable regulatory and business risks.

The UK quoted companies involved in the sector are relatively small and new to the market, so would be considered only suitable for investors with a strong risk appetite.

A lower risk approach is to

invest via an exchange traded fund which provides a diversified portfolio and reduces individual stock risk.

RIZE MEDICAL CANNABIS AND LIFE SCIENCES ETF (FLWG) \$9.46

BUY

This fund has delivered a 125% return over the last year.

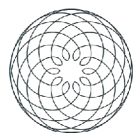
The largest holdings out of a total of 22 include GrowGeneration Corp which operates specialty garden centres in the US (23.2%), GW Pharmaceuticals (18.8%), Amyris which is an industrial biotechnology company (18%), and The Scotts Miracle Gro Company which is the largest provider of gardening and lawncare products in the US, including cannabis growing equipment, (11%).



The fund is managed by Davy Global Fund Management and has an ongoing charge of 0.65% a year. This is relatively high for an ETF but reflects the greater complexity of the product relative to more traditional trackers offering exposure to mainstream indices like the FTSE 100.



By Martin Gamble
Senior Reporter



Is biotechnology M&A the big opportunity post-vaccine?

After a vintage year in which healthcare stocks were at the forefront of addressing the coronavirus pandemic, a wave of M&A in the sector promises opportunities for investors...

It is impossible to miss the impact the last year has had on biopharma companies. Healthcare technology, already supported by strong long-term tailwinds, has been at the forefront of the battle against Covid-19, from developing new vaccines to designing new treatments for the virus as well as diagnostics.

While M&A has long been a central pillar of the biopharma world, in the early stages of the pandemic the market all but ground to a halt as uncertainty clogged the wheels of deals already in motion and acquirers rethought their strategies for the years ahead. However, the industry's success in the last year means that M&A activity has once again picked up.

BIOPHARMA'S BUILDING BLOCKS

M&A's outsize role in the biopharma space is a function of the industry's unusual dynamics. Smaller, often venture capital-funded, companies tend to take on the riskiest stages of product development, including the early-stage trials when drugs and treatments are most likely to fail. Bigger pharmaceutical companies acquire these smaller operators once a drug or therapy begins to appear successful, with their significant capital reserves and industry influence leaving them perfectly poised to execute a complex and large-scale phase three trial and to market any new products that result most effectively. The majority of early-stage development takes place in smaller companies, while the majority of drug commercialisation takes place in larger ones.

When such deals are successful, they allow the acquirer a route to new products, as the patents on its older ones expire, and the acquired company a route to market to enable monetisation of its innovative activity.

A WAVE OF M&A

Funds, such as **International Biotechnology Trust (IBT)**, have benefitted greatly from sitting on either side of these deals. In 2020 alone, IBT's portfolio companies were involved in five separate M&A deals.

Portfolio holding Principia Biopharma was acquired by Sanofi at a premium of c. 70%. Meanwhile, another portfolio holding, Momenta Pharmaceuticals, was acquired by Johnson & Johnson, also at a premium of c. 70% to the share price. In October, portfolio holding MyoKardia was acquired by Bristol Myers Squibb at a c. 61% premium to the share price. In December, AstraZeneca acquired Alexion for a

premium of 45%. And finally, the company benefitted doubly from Gilead Sciences' acquisition of Immunomedics at an over 100% premium as it held shares in both.

The latter three deals were substantial in magnitude with a combined value of around US\$84bn, showing the appetite in the industry for merger activity among companies of all sizes. And with the pause in activity in early 2020 still leaving significant pent-up demand for such deals, biotechnology funds are poised to continue benefitting into the middle of 2021.

IBT's portfolio is particularly tilted to such opportunities. The experienced management team's focus on investing in companies that solve an unmet medical need, have strong pricing power for products, and have experienced management and financial strength, means that the portfolio contains companies which are natural targets for acquisition. It was recently announced that Ailsa Craig and Marek Poszepczynski have taken over as joint Lead Investment Managers following the decision of Carl Harald Janson to step back and take a role as Senior Adviser to SV Health Investors. Ailsa and Marek have been working on the investment management of IBT since 2006 and 2014 respectively so this is not expected to result in a change of direction. Indeed, in respect of IBT's M&A deal flow, Marek has a background in creating and valuing M&A transactions in the sector so offers a particularly strong skillset in this space.

AN ACQUISITION ON THE HORIZON?

One company which has attracted M&A speculation is Biogen. The biotech company has had a tumultuous two years after key trials of its Alzheimer's treatment, aducanumab, seemingly showed no therapeutic benefit. However, further scrutiny of the data led the company to believe that the drug was beneficial, and it began the process of applying to have the drug approved by the FDA. That decision is now at a crucial stage, due to be made in the next couple of months.

With the company's stock currently attractively valued in comparison to the sector on a P/E basis, the potential upside of an approval for those with the nerve to hold the stock over such a pivotal period is significant. Conversely, the potential downside from bad news is terrifying, as was seen when the stock plummeted around 30% on the 2019 announcement of the original trial failure. While it has in-licensed some new drugs, the dominance of aducanumab in its portfolio as older products fall out of their patent periods means many in the market believe it is also likely to look to an acquisition in a bid to diversify its product base further, or potentially become an M&A target itself.

To learn more about the team at IBT and their highly skilled approach to stockpicking, click [here](#).

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Our stock picks for 2021 are outpacing the market

Several names are sitting on double-digit gains as we get off to a solid start

At the end of a tumultuous first quarter for global markets [our top picks for 2021](#) have handily outperformed the market, chalking up a 9.5% gain versus 6.3% from UK shares in general, as measured by the FTSE All-Share.

OUR
2021
PICKS
+9.5%

Four of the 12 stocks have underperformed, having been victims of shifting market sentiment as much as any individual failings at a company-level.

BUMPER PERFORMANCE FROM WETHERSPOONS

The standout performer is pubs group **JD Wetherspoon (JDW)**, up 36.1%. The stock is benefiting as the market reacts to the looming reopening of the UK economy. The shares have also benefited from a shift in investor preference in favour of value-orientated stocks offering the prospect of earnings recovery



today rather than the promise of growth at some point in the future at an elevated valuation.

Numis analyst Tim Barnett recently made the comment that Wetherspoon seems 'moderately upbeat on reopening'. While the 12 April reopening date is a bit later than the company had expected, there are slightly fewer restrictions than feared.

He says Wetherspoon previously hoped customers would be able to order from the bar from the end of June, but this is not a given. Barnett adds: 'It sounds like they plan to reach average weekly turnover close to 2019 levels by the end of the year.'

EYES ON THE PRIZE

The second best performer from our portfolio is eyewear frames specialist **Inspects (SPEC:AIM)**. The company delivered an in-line update for 2020 with sales of \$46.2 million, less than 2019 because of the pandemic but modestly better than the \$45 million forecast by broker Peel Hunt.

Perhaps more importantly the company revealed strong progress with the integration of

the recently acquired German business Eschenbach, leading Peel Hunt to observe that the company was 'well placed to make strong progress when restrictions ease and the synergies start to come through, and now has a platform to build a materially larger business'.

Other big winners in our portfolio include Eurofins Scientific. As we'd hoped the French biopharmaceutical and cosmetics testing specialist has benefited from pandemic-linked work, with the company recently launching an at-home, prescription-free Covid test.

In March the company confirmed guidance for 2021 but said results could be materially better if Covid-19 testing continued at the current levels.

NOT ALL TECH FIRMS ARE OUT OF FAVOUR

Another value play which has done well year-to-date is language services and technology firm **RWS (RWS:AIM)**, which already this year has pointed to good progress with integrating the SDL acquisition and, armed with a debt-free balance sheet, has signalled it is looking at

further deals.

The only negative has been relative strength in sterling which is acting as a bit of a headwind to earnings.

PZ CUSSENS MAKEOVER CONTINUES

PZ Cussons (PZC) has outperformed other names in its consumer goods sector like **Unilever (ULVR)** and **Reckitt (RB.)**. The market seems to be warming to the stock as it outlines plans for a turnaround of the business.

Numis says: 'The application of a more rigorous approach to brand management and reduced complexity should allow the business deliver low to mid-single digit sustainable, profitable revenue growth.'

'We believe (a recent investor day) provided a clear, credible road map towards unlocking the potential of PZ Cussons' brands and markets.'

TRACKING THE MARKET

There is a collection of names whose gains are roughly in line with the wider market. These include tech-focused defence firm **QinetiQ (QQ.)** which at its own investor event on 4 March detailed plans to deliver enhanced returns over the next five years.

Perhaps more notable is mining firm **BHP (BHP)** which enjoyed an extremely strong start to the year amid talk of a commodities super-cycle and was briefly minted as the largest company in the FTSE 100.

However, a recent reversal in iron ore prices after a crackdown by Chinese authorities on excess capacity in the country's

SHARES' 2021 PORTFOLIO			
Company	Entry price (p)	Price now (p)	% gain / loss
Wetherspoon (JD)	1007	1371	36.1
Inspecc	271	355	31.0
Eurofins Scientific	€69.99	€82.19	17.4
RWS	534	616	15.4
PZ Cussons	233	268	15.0
Qinetiq	299	323.8	8.3
BHP	1983	2107	6.3
Tracsis	630	669	6.2
Diageo	2945	3035	3.1
ConvaTec	204.6	198.5	-3.0
Alibaba	\$256.22	\$229.25	-10.4
Ocado	2301	2043	-11.2
TOTAL			9.5
FTSE All-Share	3624.3	3852.62	6.3

Entry prices taken 21 Dec 2020. Latest prices taken 31 March 2021.

steelmaking industry as well as measures to tackle pollution in the sector have seen a large chunk of those early gains erased.

PLAYING CATCH-UP

The three biggest disappointments where we are sitting on losses of varying degrees of severity have largely been victims of the same rotation out of 'jam tomorrow' into 'jam today' value stocks which benefited Wetherspoon.

Medical products firm **Convatec (CTEC)** also hasn't been helped by continuing delays to elective procedures thanks to Covid. Though the company did offer some encouragement after revealing a better-than-expected outlook in a 5 March trading update.

China's Alibaba has been at the centre of potential regulatory issues in the US and China and increased scepticism over Chinese internet stocks

in general.

Bottom of the leader board is online groceries firm **Ocado (OCDO)** which has been shunned by investors who have developed an aversion to highly rated growth stocks.

In addition, the pandemic is proving an obstacle to signing up more international supermarkets for its robotics and automation-based solutions.

Berenberg commented: 'There has been increased interest in Ocado's solutions, but the main barrier to signing deals is international travel restrictions and partner executive teams not being able to physically see the facilities in operation... travel restrictions will likely continue to impact the ability to sign new partnerships over the coming months.'



By **Tom Sieber**
Deputy Editor

MONEY & MARKET\$

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Dual-class share structure may be an imperfect but necessary option

Controversial model could clip wings of short-termism that has cost investors in the past

Food delivery platform **Deliveroo (ROO)** has put the backs up of a lot of investors, and not just because of its debut share price hammering that wiped £2 billion off its £7.6 billion starting valuation.

The company's decision to adopt a dual-class share structure was a controversial one, giving co-founder and chief executive Will Shu greater control over the company. The system has a three-year shelf life but it was enough to for many major fund firms to pass on the IPO (initial public offering).

Twin-stock structures are nothing new but they are a rarity in the UK – **THG (THG)** is the only other example in the UK we can think of.

But they remain popular with founder-owned businesses in the US, particularly with many of the big tech IPOs in recent years. Facebook investors, for example, own Class A shares which carry one vote per share, while founder Mark Zuckerberg, and a handful of senior management are Class B owners, with 10-times the voting rights.

MODEL JUST ISN'T CRICKET
That artificial tilting of voting

power is a difficult pill for most UK investors to swallow. One share, one vote has been sacrosanct in the UK and it strikes to the core of Brits' sense of fair play. If management make a pig's ear of value creation, investors can club together and throw them out, and get new people in to hopefully do a better job.

But what of the long term? There are good arguments that this can lead to 'casino capital,' where investor impatience means there is no room for short-term sacrifices made for longer-run gains, or perfectly good businesses are sold too early and too cheaply, denying some investors years of growth and compounded cashflows.

Think back to the summer of 2016 when the UK's microchip designs champion ARM was sold to Softbank. Yes, the £32.3 billion deal meant investors cashed-in a 40%-plus premium to the then share price, but it is impossible to calculate the value that might have been created for shareholders had they taken a longer-term view. One fund manager admitted to *Shares* 18-months later that he 'regretted' selling, and there are probably many others.



NEW RULES FOR A NEW WORLD

This is particularly important today where new technology-led businesses are creating entirely new markets that need time to mature before their real profit potential can be realised. The UK is good at producing bleeding edge leaders; like Skyscanner, DeepMind and Babylon Health. Payments firm Stripe, started by two Irish brothers, was recently valued at \$95 billion, the biggest ever private company valuation.

Dual-class share structures can give founders the time needed for their enterprise to flower without restricting their access to growth capital. The twin-share model is not perfect but if London is to attract such growth businesses when they eventually float, it may provide the owners with the flexibility they need to grow their enterprises into global giants like Amazon or Alphabet.



By **Steven Frazer**
News Editor

LONG-TERM ENGINES OF GROWTH

UK investors have a lot of reasons to like mid- and small-cap stocks for the long haul

Smaller cap companies get a lot of attention when the economy appears to be improving because historically, their profits – and stock prices – tend to be more tied to the business cycle. But this short-term view misses some of the greatest benefits of investing in mid- and small-cap stocks over the long term.

In fact, the long-term returns of UK mid- and small-cap companies are among the best in the world – outpacing the FTSE 100, the MSCI Emerging Market index and even the S&P 500 over the last 25 years. Let's take a closer look at the drivers of that performance.

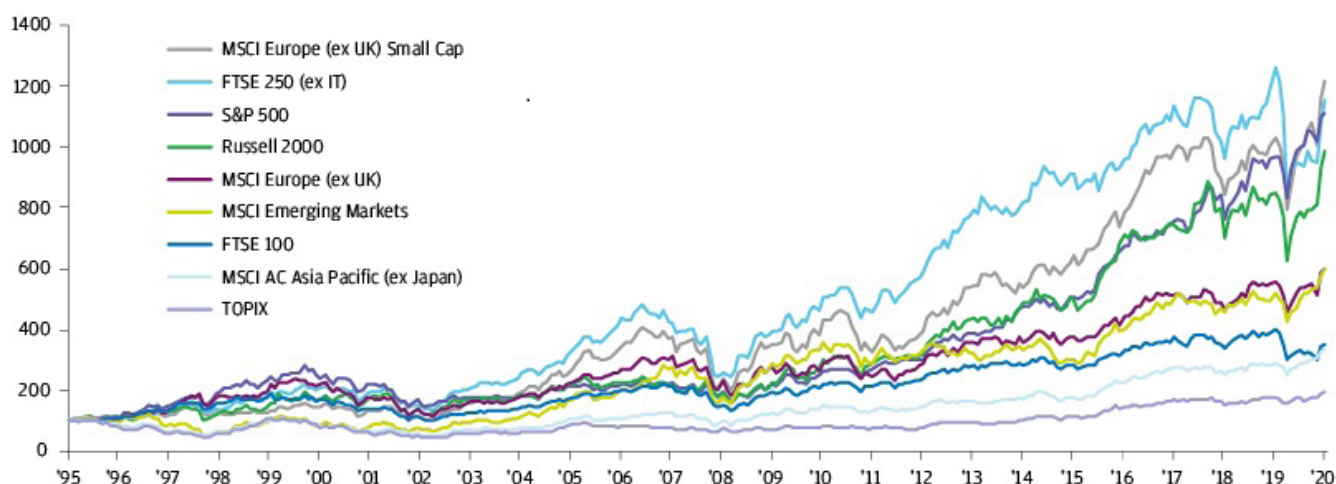
DYNAMIC AND DOMESTIC

Mid- and small-cap companies tend to have favorable combination of higher exposure to growth compared to their large-cap peers and less exposure to some of the structural and logistical challenges that larger companies face. For example, a smaller company that wants to launch a product, sell into a new market or hire a senior executive might be able to execute quickly on any of these initiatives after a few key decision-makers agree on a plan. Larger companies may have numerous layers of management, competing products or markets to consider or a long and formal hiring process. This operational flexibility



and nimbleness can be a key competitive advantage for smaller companies facing larger rivals that are well-financed and established.

Large company structures are often more complicated due to international operations – from regional offices to international clients and supply chains. Smaller companies tend to derive a much greater portion of their revenues domestically, in addition to having less international operational exposure. This is particularly true in the UK, where over half of mid- and small-cap company revenues are domestic. In fact, for The Mercantile Investment Trust, a UK investment trust that seeks to achieve capital growth by investing in a diversified portfolio of mid – and small-cap UK companies, that number is 57% – compared to just 23% for FTSE 100 companies.



TURBO-CHARGED GROWTH

Growth is not unique to mid- and small-cap companies, but many of them are growing at a faster rate than large-cap companies, often because they are at an earlier stage of development. For example, many mid- and small-cap companies are built around an innovative or disruptive idea, product, service or solution that allows the company ample room to grow its customer base, revenues and ultimately earnings.

One of the benefits of being an active mid- and small-cap investment manager is the opportunity to invest in some of the newest and fastest-growing companies by investing at their initial public offering (IPO). The research and due diligence process before investing is intense, but the rewards can be great. Investing in a company at a such an early stage means the potential to share in a sharp growth trajectory.

TAKING ADVANTAGE OF TURBULENCE

Just as passengers feel turbulence more in a small plane than in a jumbo jet, investors in mid- and small-cap stocks may experience a little more volatility than in large-cap equity markets. Not only is the volatility okay, it can actually be helpful for active managers.

Greater potential for surprises – positive and negative – is a key factor contributing to volatility. Smaller companies, on average, are more likely to see their profits and stock prices fluctuate with the business cycle or the impact of an event, such as a management change, merger or scandal; larger companies have a greater ability to smooth their earnings and absorb shocks. Further contributing

to the potential for surprises is the fact that mid- and small-cap stocks are far less researched: FTSE 100 companies are covered by an average of 18 analysts versus 10 for FTSE 250 companies. These conditions actually create opportunities for active managers who do their own research, such as The Mercantile Investment Trust, to invest in companies they believe will be the next long-term winners – and avoid those they think will be the losers. Both sides of the equation contribute to generating positive returns.

Liquidity can also be a factor in increased volatility. While the UK mid- and small-cap markets are generally considered liquid, trading volumes can still be well below those of large-cap stocks. That means in times of market exuberance or stress, smaller-cap stock prices may swing in a wider range than large caps. Particularly in down markets, The Mercantile Investment Trust's long-term investment horizon and its closed-end structure are important advantages because the portfolio is not forced to sell holdings at lower prices to meet redemptions. That gives the portfolio managers a better chance to preserve capital and minimise volatility for investors.

Mid- and small-cap UK stocks have generated among the best long-term returns over the past 25 years. With the drivers of these returns still in place, we believe mid- and small-cap companies will continue to be engines of growth and returns for active UK investors, and The Mercantile Investment Trust will remain the home of tomorrow's UK market leaders.

For more information on Mercantile, visit
www.mercantileit.co.uk

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Give your portfolio a spring clean

An annual review can help keep your investments on track

This time last year, the UK had just entered what turned out to be the first of a series of lockdowns, and the nation was digesting a very restrictive new normal.

Today, vaccines have provided hope that soon the worst of the pandemic will be in the rear-view mirror, and expectation that the global economy will open up and record some decent growth.

It's therefore an opportune time to take a good look under the bonnet of your portfolio to make sure it's fit for current market conditions.

AN ANNUAL EXERCISE

Indeed, it's good practice to have an annual spring clean of your finances every year, to make sure they're in tip top shape. Regular maintenance can keep your investment portfolio from falling into disrepair, but it can be



difficult to know where to start. The task can be made a lot more approachable by going about it in a methodical fashion.

The first thing to assess is whether there have been any significant changes in your personal situation. If you have got married, had a child, or bought a bigger house, this can have an impact on your finances, most notably your life insurance requirements, and the need to update your will.

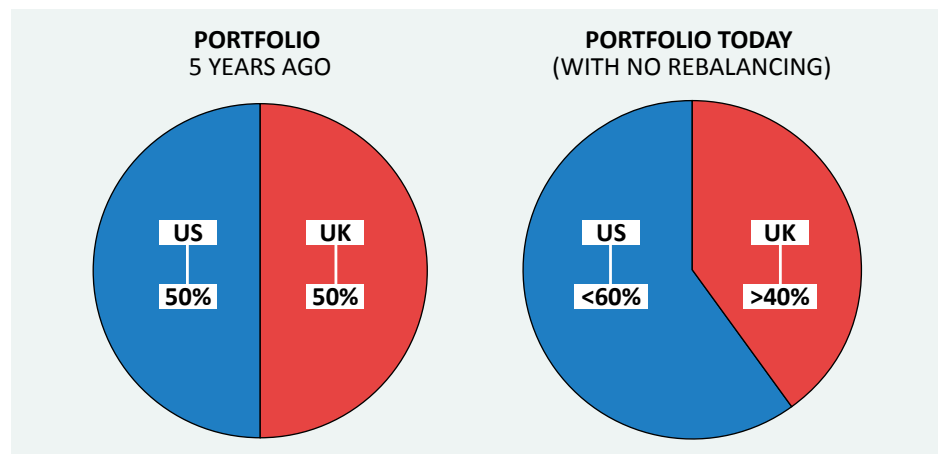
But your personal

circumstances can also affect how much risk you should be taking with your investment portfolio, for instance if you are approaching your retirement and looking to start drawing on your pension.

So consider, what, if anything, has changed personally, and consider how this affects your appetite for taking risks with your investments.

Regular rebalancing is an important way to keep your portfolio from becoming out of kilter. That's because even if you start off with a balanced portfolio, over time market performance can warp its shape.

As a simple example, consider a portfolio that was 50% invested in UK equities and 50% invested in US equities five years ago. Today, that portfolio would be over 60% invested in the US and less than 40% invested in the UK. This is due to the value of US stocks growing faster than UK stocks.



Source: Shares. Note for illustrative purposes only.

STAYING DIVERSIFIED

To be diversified you should have more global exposure than just two markets, but this example illustrates how the relative performance of two areas can affect the make-up of your portfolio. In this scenario, you might well choose to continue with a higher US allocation, in which case you need take no action, but you have at least made a considered decision rather than letting the balance in your portfolio be dictated by market movements.



As well as the regional split of your portfolio, you should give some consideration to the allocation across asset classes; equities, bonds, property, gold, cash, and so on. You should also consider whether any sectors have performed particularly well, and now make up an outsized part of your portfolio.

Given its strong recent run, it wouldn't be surprising to find technology shares making up a significant portion of investors' portfolios if left unchecked.

Finally, see if any specific funds have done a lot better than others and now constitute a large part of your portfolio. That's clearly a good sign, but it's worth making sure that your portfolio returns are not too heavily reliant on just one fund manager, no matter how good they are, because even the very best can go off the boil.



MONITOR THE BAD PERFORMERS

At the other end of the spectrum, you should check your portfolio for any serially poor performers. These are not funds which have had a bad year, or even three years, simply because their investment style is out of favour, but rather funds which have lagged behind competitors for a long period, and show little sign of change for the better.

You should consider replacing fund duds with more promising active funds, or cheaper tracker funds, which won't outperform, but aren't charging the higher fees associated with active management for the privilege of underperforming.



As well as inspecting performance, it's worth checking that the fundamental reasons you bought an investment are still in place. For funds and investment trusts, make sure there hasn't been a change in fund manager or strategy, and if there has, consider switching out if it doesn't fit your goals anymore. For shares, consider if the reason you bought an investment has now run its course, or has still got some legs.

For example, can **Whitbread (WTB)**, the owner of Premier Inn, still prosper in a world when business travel looks likely to be lower thanks to widescale adoption of teleconferencing? Perhaps so, but it's certainly worth asking the question.

LOOKING FOR NEW IDEAS



A portfolio review is also a decent time to scout around for new investment ideas, which might replace funds or stocks you're selling. Are there any emerging trends you might want to buy into? Or any fund managers who have finally clocked up a long enough performance record to merit inclusion in a portfolio.

The final piece of the jigsaw is to make sure your portfolio is invested as tax efficiently as possible. A new tax year means fresh pension and ISA allowances, which will only start to protect your investments from capital gains tax and income tax once they're wrapped inside the tax shelter.



By **Laith Khalaf**
Financial Analyst

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What are the benefits of deferring my state pension?

Our resident expert helps with a retirement-based query which is a matter of timing

I'll be 66 in just under a year and so have started thinking about taking my state pension. My understanding is that I'll get a 5.8% boost in the value of my state pension if I defer taking it by 12 months.

Is this right? If so, given current interest rates are close to 0% isn't a 5.8% annual return a no-brainer for most people? Am I missing something?

Elizabeth



Tom Selby
AJ Bell
Senior Analyst says:

The state pension age is currently 66, with legislation mandating an increase to 67 in 2028. The full flat-rate state pension is currently worth £175.20 a week, although as discussed in last week's column not everyone will get this amount.

For example, people who have a National Insurance (NI) contribution record below 35 years will have a deduction applied, as will those who 'contracted out' of the additional state pension before 2016 in return for lower NI contributions.

You can read more details about how this works [here](#).

It is also possible to delay the date at which you start receiving your state pension in return for an uplift in your weekly payment.

For anyone who reached state pension age on or after 6 April 2016, the deferral rate is 1% for every 9 weeks they defer, or just under 5.8% for every 52 weeks.

This increase is applied to the flat-rate state pension. Based on someone receiving the full amount of £175.20 a week, a person who deferred for 52 weeks would get an extra £10.16 a week.

THE LIFE EXPECTANCY CALCULATION

Remember that when you defer your state pension you forgo an income. So, for example, someone entitled to the full flat-rate state pension of £175.20 a week in 2020/21 who defers taking it for a year has given up £9,110.40 of income in that first year in return for £10.16 extra a week for the rest of their life.

It's therefore probably better to think about the state pension deferral calculation in terms of how long it could take for you to 'break even'.

Based on the state pension increasing by 2.5% each year (the minimum possible annual



increase under the terms of the 'triple-lock'), it could take 15 years to take as much total income via deferral as you could have done by taking the state pension at age 66.

For someone with a state pension age of 66, this implies the point at which they might be in 'profit' from deferring the state pension could be around age 81.

Given average life expectancy for a 66-year-old man is 85 and a 66-year-old woman is 87, this suggests that, provided you are in good health, delaying receiving your state pension is likely to pay off financially.

However, this might not be the case for anyone with health or lifestyle factors which might reduce their life expectancy.

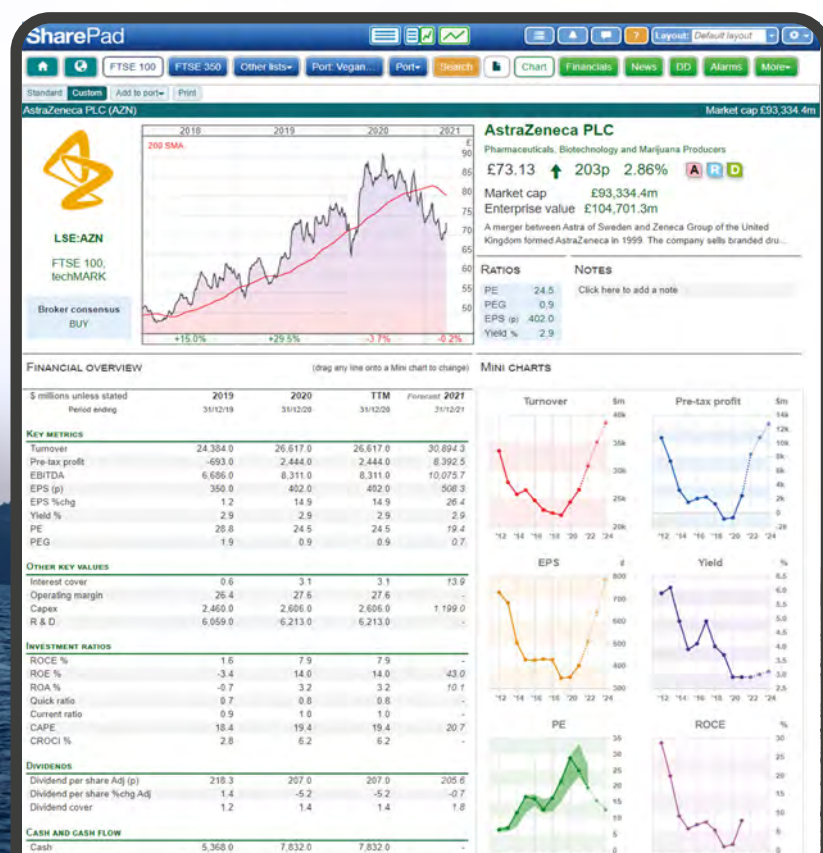
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SharePad from ShareScope

Main Market	
A.G. Barr	7
AstraZeneca	3
BHP	20, 33
Bloomsbury Publishing	13
Britvic	7
Coca-Cola European Partners	7
Coca-Cola HBC	7
Convatec	33
Deliveroo	35
International Consolidated Airlines	8
IP Group	26
JD Wetherspoon	32



Jet2	8
MGC Pharmaceuticals	29
National Grid	20
On The Beach	8
PZ Cussons	33
QinetiQ	33
Reckitt	33
Renewi	15
Rio Tinto	20
SSE	20
THG	35
TUI	8



Unilever	33
Volution	14
Whitbread	39

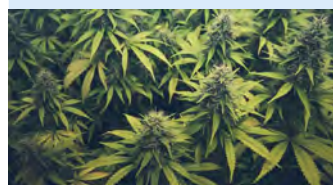
Investment Trusts	
GCP Infrastructure	22
Hipgnosis	24
NextEnergy Solar	24

Overseas shares	
Alibaba	33
Aphria	29
Aurora Cannabis	29
Canopy Growth	29
Coca-Cola	7



Eurofins Scientific	32
GW Pharmaceuticals	30
Micron Technology	13
Moderna	3
PepsiCo	7
Pfizer	3
TeamViewer	10
Tilray	29

ETFs	
Amundi MSCI World SRI	19
iShares Core MSCI World	18
iShares MSCI World Small Cap	18
iShares UK Dividend	20
Medical Cannabis and Wellness ETF	29
Rize Medical Cannabis & Life Sciences ETF	29



Vanguard FTSE Emerging Markets	19
Vanguard USD Corporate Bond	20

AIM	
Cellular Goods	30
Inspecc	32
Kanabo	30
Medica	9
Nichols	7

IPO coming soon	
Northern Leaf	30
Oxford Nanopore	26



KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

12 April: Belvoir, Concurrent Technologies, Elixirr, Instem, Oxford Technology VCT. **13 April:** Good Energy, JD Sports Fashion, JTC, Next Fifteen Communications, Northbridge Industrial Services, SourceBio International.

14 April: Destiny Pharma, Tesco, The Mission Group.

15 April: Epwin, Intelligent Ultrasound, Oxford Biomedica, Puretech Health, THG.

Half-year results

13 April: Revolution Bars.

Trading statements

13 April: Plus500, XP Power. **14 April:** Audioboom, Robert Walters. **15 April:** Hays, Naked Wines, Norcross.

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