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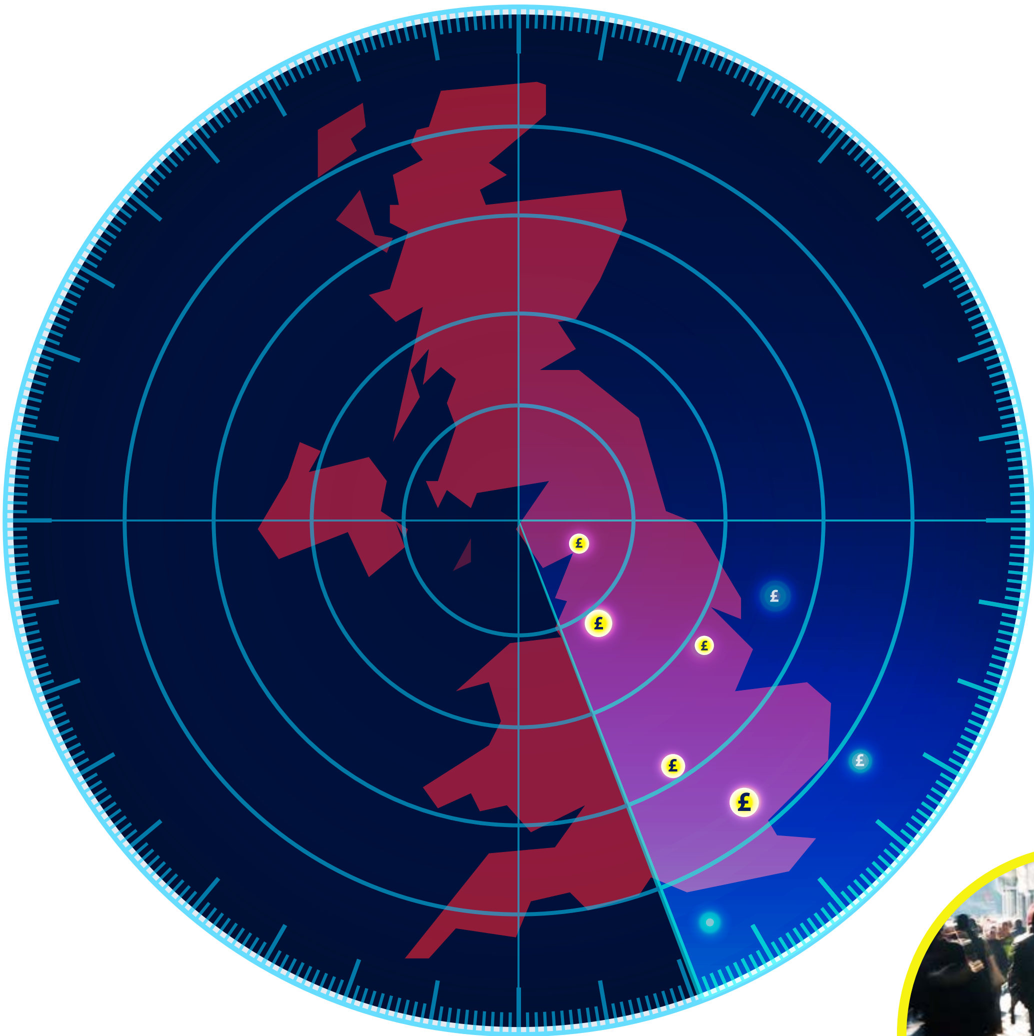

IN NEWS

What next for markets as reopening falls flat

Contents

CFA UK Publication of the Year CFA UK Journalism Awards 2019

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

SIPPs | ISAs | Funds | Shares
AJBell
Youinvest
RETIREMENT YOUR WAY?
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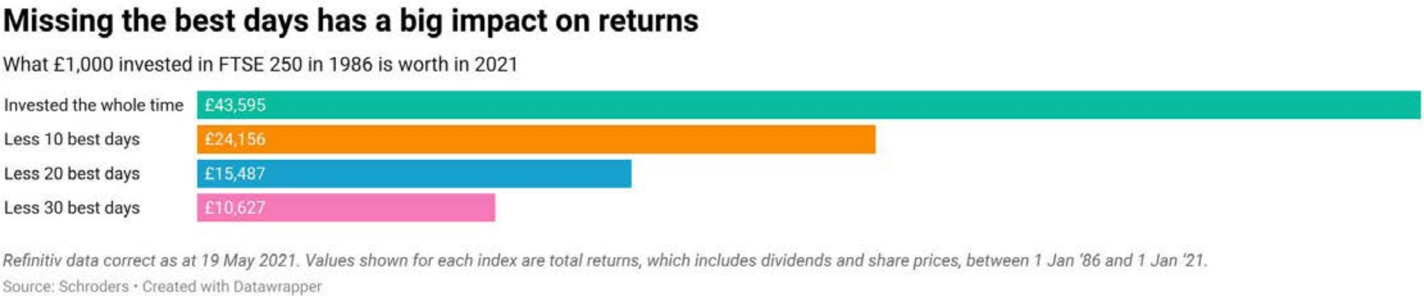
youinvest.co.uk
Recommended Provider
Which?
Investment Platforms May 2020
Recommended Provider
Which?
Self-Invested Personal Pensions July 2020
THE TIMES money mentor
CUSTOMER EXPERIENCE RATING
Investing & Pensions
GOLD AWARD
Autumn 2020
Capital at risk.
Pension rules apply.

Why Freedom Day has been such a dud on the markets

The importance of staying invested for the long term is being demonstrated again



It is often said that it is better to travel than arrive when it comes to investing and England's 'Freedom Day' seems to be a case in point.

The long-awaited lifting of restrictions has come against the backdrop of rising infections and the FTSE 100 plunged to a two-month low on the day itself (19 Jul).

The surge in reopening plays which began with the successful development of a Covid vaccine in November 2020 is starting to feel like a distant memory just as those businesses are legally able to fully reopen.

In this week's news section, we have a fuller analysis of the recent performance of these stocks.

The emergence of the Delta variant and the subsequent surge in infections is obviously a big part of this story but it is also true that by the time we get to an event which the market has long been factoring in, most of the good money has been made.

What can investors learn from this? Some may take the view they just need to be more agile and look to sharpen up their timing in order to make bigger profits from the stock market.

For most of us, this is almost certainly the wrong lesson to draw. Time in – not timing – the market is a more reliable route to protecting and increasing your wealth.

Research by **Schroders (SDR)** shows that if you had invested £1,000 in the FTSE 250 mid cap index at the start of 1986, by January 2021 that investment would have been worth £43,595 if you left it alone.

However, if you missed out on the best 30 days the same investment would now be worth just £10,627 and missing the best 10 days would still have cost you the best part of £20,000.

Nick Kirrage, a fund manager on the Schroders value investing team, said: 'You would have been a pretty unlucky investor to have missed the 30 best days in 35 years of investing, but the figures make a point: trying to time the market can be very, very costly.

'As investors we are often too emotional about the decisions we make. When markets dive, too many investors panic and sell; when shares have had a good spell, too many investors go on a buying spree.'

If you had been dipping in and out of the market, then missing the best 10 days is a perfectly reasonable scenario. It is better to stick with a disciplined approach of investing regular amounts in the market.

For those who are close to needing to crystallise at least some of their investments, perhaps because they are nearing retirement, a sensible approach would be to gradually reduce the component of their portfolio which is exposed to stock market volatility.

By **Tom Sieber** Deputy Editor

Stagflation fears trip up global stock markets

What this means for investors and how to reposition your portfolio

The mood on the markets was hardly celebratory as England lifted its lockdown restrictions on 19 July. Gloomy warnings from the UK Government, rising Covid-19 cases linked to the Delta variant and growing signs of inflationary pressures all helped to drive the FTSE 100 to a two-month low on the day.

The fear now stalking the markets is one of stagflation. In simple terms, this means a combination of rapidly rising prices combined with slowing economic growth as mounting global infections driven by coronavirus variants hit activity.

The danger of this scenario is that central banks will be constrained in their ability to stimulate growth by lowering rates or ramping up asset purchases for fear of stoking their overheating economies any further, or worse that they might be forced to accelerate rate rises.

INFLATION RUNNING AHEAD OF EXPECTATIONS

Evidence of inflationary pressures continues to mount. The latest consumer price index readings from the UK and US for June came in ahead of expectations at 2.5% and 5.4% respectively year-on-year.

The causes of inflation are numerous and include pent-up demand built up during the pandemic further boosted in the US by stimulus cheques.

The rising cost and dwindling availability of raw materials and components are significant factors. Notably, these include micro-processors used in a more digitised world as well as the shipping containers required to get products and equipment where they need to be.

Staff shortages in key areas, and people moving off furlough and associated reduced levels of pay, are also driving up wages.

Several firms have added their voice to warnings of pressures on profitability from rising costs. This includes Europe's largest home appliances maker Electrolux and vehicle manufacturer Volvo flagging components shortages which are affecting profitability and their ability to capitalise on robust demand.

On 20 July, mixing drinks maker **Fevertree (FEVR:AIM)** saw its shares sink 7% to £22.81 despite upgrading revenue guidance as investors were spooked by a warning of margin pressure thanks to global logistics disruption and raw material costs which it expects to persist into 2022.

Reopening plays in hospitality and leisure sink as earnings are downgraded

Company	Three-month share price change	Downgrades to current financial year consensus earnings forecasts over past 3 months
Whitbread	−15.6%	−78.5%
Marston's	−13.7%	−47.6%
Cineworld	−37.8%	−36.2%
Hollywood Bowl	1.2%	−11.9%
JD Wetherspoon	−20.5%	−2.6%

Source: SharePad, Stockopedia, data to 20 Jul '21. • Created with Datawrapper

These examples show the market could be in for a rocky ride as investors react negatively to the way cost inflation is undermining any benefit from rising sales.

For now, most politicians and central bankers are sticking to the message that this period of rapidly rising prices will be short-lived but once the inflation genie is out of the bottle it can be hard to contain.

EARNINGS DOWNGRADES

The share price performance of so-called reopening plays has turned negative of late, and this has been matched by slumping earnings forecasts.

While earlier messaging from prime minister Boris Johnson and his cabinet focused on the 'irreversibility' of the lifting of restrictions, this has been notably absent from the latest briefings.

This factor, plus a last-minute decision to introduce compulsory vaccine certificates for nightclubs and other indoor crowded venues from September, will contribute to fears that the long-awaited recovery in the hospitality and leisure space could bump up against rising Covid infections, hospitalisation and mortality rates and a potential reintroduction of some protective measures.

MOUNTING UNCERTAINTY

The uncertainty on its own could be enough to knock the sector's fragile recovery off course. This is troubling given these businesses were likely to play a big part in any rebound in corporate profit.

If we do end up in a stagflation scenario it is unlikely to be good news for investors. Althea Spinozzi, senior fixed income strategist at Saxo Bank, says it could change investors' approach towards their investments completely because it means that economic growth might not be strong enough to sustain record high asset prices.

'Valuations will need to correct according to the real economy's activity. Otherwise, nominal growth (real growth plus inflation) may continue to rise through inflation, eroding value from asset prices.'

WHERE TO INVEST DURING STAGFLATION

Spinozzi highlighted several areas which could perform well, at least in relative terms, in the event of stagflation.

These include inflation-linked bonds, commodities (although probably only in the short term) and shares in consumer staples firms as they sell products which are necessary to live regardless of the economic backdrop or the increase in prices.

Owners of health-related properties which have at least a proportion of their rental income linked to inflation, such as care home investor **Target Healthcare REIT (THRL)** and GP surgery landlord **Assura (AGR)**, may also be on investors' radar in a stagflation environment.

Demand for healthcare is largely uncorrelated from the wider economy, and the income-protection attached to their revenue stream should underpin their ability to sustain dividend payments. [TS]

Airline shares dive as summer earnings expectations decline

It looks highly unlikely that 2021 will be a profitable summer holiday period for UK-listed airlines

Shares in the main UK-listed airlines have fallen by 14% on average in the past two months as analysts continue to downgrade their earnings forecasts for the sector.

Airlines had hoped for a big rebound in activity during the summer as Covid-related restrictions are lifted and more people are vaccinated and ready to travel once more.

Unfortunately, confusing messages from the UK Government over which countries you can visit without isolation upon return, together with a surge in the number of people catching Covid have cast a dark cloud over the airline sector's chances of having a profitable summer.

'Traffic may have reached an inflection point, but financial and cash flow inflections are yet to come,' says stockbroker Davy.

Airlines are having to contend with cost pressures including fuel and maintenance, while those consumers willing to fly are having to stomach testing-related costs and airport delays – these latter two factors might be enough to put a lot of people off travelling.

EasyJet (EZJ) said on 20 July that customers in Continental Europe now accounted for two thirds of its summer bookings versus 50% historically. It has even shifted some of its Greek-destined routes to take off from EU and Swiss hubs rather than the UK.

According to consensus data from Stockopedia, analysts have cut forecasts for EasyJet's current financial year by nearly 20% over the past two months, either illustrating waning confidence in near-term trading or an admission that forecasts were simply too high in the first place. Estimates for the year to September 2022 have also been slashed by approximately 11%.

Wizz Air (WIZZ) had been forecast to essentially break even for the year to March 2022 and now analyst forecast a €0.94 per share loss. Two months ago, **Jet2 (JET2:AIM)** was expected to make 22p loss per share in its current financial year to March 2022, now that estimate has widened to 77.4p per share.

The next few months could be very difficult for the UK airlines, yet some investors may wish to look at other territories for brighter signs in the broader sector. Air travel in the US recovered to pre-pandemic levels over the 4 July Independence Day weekend. In June, United Airlines placed an order for 270 jets, the biggest in the airline's history, as it gambles on a resurgence in premium travel. [DC]

Airlines hit by fading earnings expectations

Company	Financial year	Change in EPS forecast in past 2 months (%)	2-month share price change (%)
EasyJet	2021	-19.1	−19.5
	2022	-10.8	
IAG	2021	-14.3	−16.8
	2022	-3.3	
Jet2	2022	-251.9	−21.7
	2023	0.9*	
Ryanair	2022	-98.3	−7.4
	2023	-3.7	
Wizz Air	2022	n/a**	−6.7
	2023	-4.1	

**Upgrade. **The variance is more than 500% with the figure skewed by coming from a low base.*

Source: SharePad, Stockopedia, change to earnings per share forecast between 20 May and 20 July 2021 • Created with Datawrapper

Market leadership narrows as investors take to sidelines

The number of new highs has shrunk sharply as new lows gather momentum

There is a well-worn phrase that 'a week is a long time in politics'. In market terms, a week can feel even longer and can sometimes signal a shift from one trend to another.

A fortnight ago when we introduced the idea of watching the number of stocks making new highs as a barometer of the health of the market, the FTSE All-Share was just below its all-time high and everything seemed to be going swimmingly.

We intended to run the feature monthly, but the last few days have seen a marked shift in investor sentiment and a sharp change in the direction of the index which has been reflected in a significant narrowing of market leadership.

According to data from Shore Capital covering the FTSE All-Share and the AIM All-Share, instead of 70 or more stocks making new 12-month highs, the list has shrunk to a fraction of that number.

At the same time, the number of stocks making new lows has ballooned five-fold from less than half a dozen to 25 names, outnumbering the highs by more than two to one.

Unsurprisingly, stocks in a takeover situation such as **Audioboom (BOOM:AIM)** and **Sumo Group (SUMO:AIM)** are still enjoying new highs, while waste collection firm **Biffa (BIFF)** is still riding high along with 'steady Eddie' performers like construction firm **Galliford Try (GFRD)** and utility **Pennon Group (PNN)**, which have been on the new highs list consistently this month.

On the other hand, all the investment trusts which were making new highs a fortnight ago have fallen by the wayside, as have the legal services firms and consumer-facing stocks.

The list of losers is equally revealing as it includes a number of former 'market darlings'. In the technology sector, there are new lows in **Concurrent Technologies (CNC:AIM)**, **FD Technologies (FDP:AIM)**, formerly known as First Derivatives, **Iomart (IOM:AIM)**, **IQE (IQE:AIM)** and **Wandisco (WAND)**.

Selected FTSE All Share and AIM All Share stocks marking one-year highs and lows

Highs	Lows
Audioboom	Accrol
Biffa	Avon Protection
Cropper (James)	Iomart
Galliford Try	IQE
IOG	Moonpig
Latham (James)	Napster
Pennon	Ocado
Sumo	Parsley Box
Total marking new highs = 12	**Total marking new lows = 25**

Source: Bloomberg, Shore Capital, 20 July 2021. • Created with Datawrapper

There are new lows in ESG stocks **Amte Power (AMTE:AIM)**, which makes lithium-ion batteries for electric vehicles, **Bluefield Solar Income (BSIF)** which generates solar and wind energy, and **Velocys (VLS:AIM)** which produces sustainable fuels.

Consistent with our screening a fortnight ago, there are still plenty of resources and basic materials stocks making new lows, and despite renaming itself defence contractor **Avon Protection (AVON)** seems unable to counter the downward momentum in its shares.

Finally it's worth noting the poor performance of a couple of recent issues. Although they are not technically trading at 12-month lows, **Moonpig (MOON)** and **Parsley Box (MEAL:AIM)** are at their lowest since floating as 'lockdown' plays continue to lag the market. [IC]

Guard against uncertainty with Guinness Global Equity Income

This top-performing income vehicle offers a reassuring balance between defensives and quality cyclicals

GUINNESS GLOBAL EQUITY INCOME
BUY
(BVYPNY2) £17.05
Market cap: **£1.52 billion**

Concerns over the spread of the Delta variant and its potential impact on global growth have hit the stock market's reopening names at a time when investors are also fretting over rising inflation, meaning the outlook for equity markets is clouded at the minute.

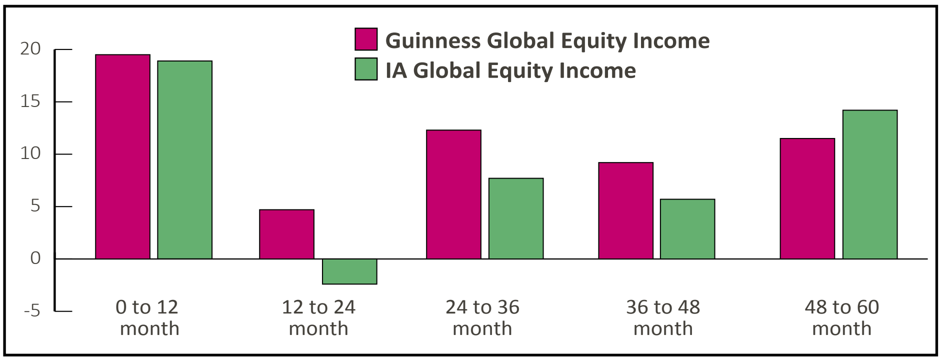
As such, *Shares* believes this is a savvy time to invest in a fund offering exposure to high quality, dividend-paying companies with the ability to protect your portfolio from both inflation and equity market downswings.

Besides delivering a gradual but powerful contribution to long-term returns, dividends can help to counter the effects of market falls and the so-called 'cruellest tax'. And should the outlook for the global economy and equity markets deteriorate, we would expect investors to pay up to access quality names that can deliver growth whilst generating cash that can be returned to shareholders.

One vehicle *Shares* has a positive stance on is **Guinness Global Equity Income (BVYPNY2)**, a concentrated portfolio of good quality, attractively valued companies, which offer a moderate dividend yield and good potential for dividend growth.

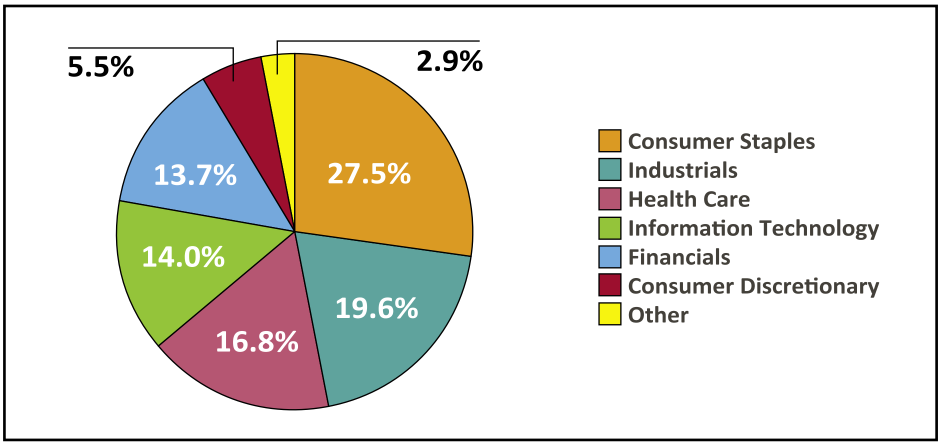
This stellar performer is managed by Ian Mortimer and Matthew Page and invests in global equities with sustainable income growth. According to Trustnet, the fund is the fifth best performer among the 57 funds in the IA Global Equity Income sector on a five year view with a return of 74.1%, while Morningstar data shows the

Discrete performance



Source: Trustnet/FE Analytics. Performance as at 19 July 2021

Sector breakdown



Source: Guinness Asset Management, as at 30 June 2021

fund has delivered benchmark-beating 10 year annualised returns of 11.64%.

QUALITY STREET

Drilling down a bit more into the strategy, the managers seek out companies with at least 10 years of persistent high cash flow return on capital every year, strong balance sheets and the robustness to withstand economic shocks while delivering a sustainable, growing dividend.

Mortimer and Page insist dividend payers outperform in the long term, and dividend growers even more so, and are fans of the ability of dividend payers to protect against inflation over the long term.

Despite the focus on quality, Guinness Global Equity Income's performance has kept up with the MSCI World Index benchmark this year, despite the so-called 'reflation trade' which has boosted economically-sensitive sectors such as energy, materials and banks.

And we think the fund is well positioned going forwards since it combines quality and exposure to more defensive/consumer staple names which have underperformed on a relative basis year-to-date and offer investors a sustainable source of income.

It is important to note that this low turnover fund targets a moderate dividend yield, Page and Mortimer don't screen for high yielding stocks, and its proven strategy helped the fund to weather the Covid dividend storm well.

During 2020, 28 companies in the portfolio grew their dividends, six kept their payouts flat, just one company cut the dividend and the fund saw no suspensions or cancellations. The fund's dividend for 2020 fell by 0.6% to £5.37, versus a 12.3% dividend decline for the MSCI World Index. And in 2021 to date, dividends declared by the underlying holdings have generally surprised to the upside.

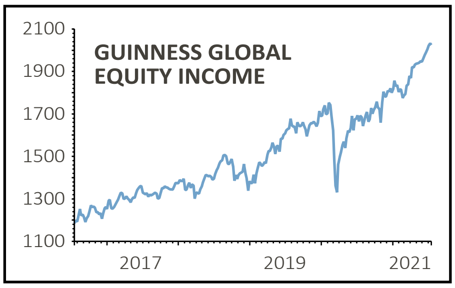
Typically, Mortimer and Page run 35 equally weighted positions, which reduces stock specific risk and instils a strong sell discipline to boot. Another advantage of an equally weighted portfolio is that potentially, it gives the fund more of a growth bias; an equally weighted portfolio naturally gives greater weight to small and mid-caps relative to a broad index where big caps dominate.

Guinness Global Equity Income continues to maintain a fairly even balance between quality defensive companies, such as consumer staples and healthcare stocks, and quality cyclical/growth companies including industrials, (non-bank) financials, consumer discretionary and information technology stocks.

LARGEST HOLDINGS

The top 10 holdings at the end of June included the likes of China's Anta Sports Products, the sportwear company behind brands including Anta, Fila and KingKow, as well as tobacco manufacturer **Imperial Brands (IMB)**, power management company Eaton, payroll processor Paychex, tech titan Microsoft and also the German stock exchange Deutsche Boerse.

No changes were made to the portfolio in the second quarter of 2021, during which the fund's top five performers were led by Anta, Novo Nordisk, Otis Worldwide, BlackRock and Roche, more than compensating for disappointing performances from the likes of Henkel, **Reckitt Benckiser (RKT)**, Johnson & Johnson, **British American Tobacco (BATS)** and Procter & Gamble. [JC]



Frontier Developments is a UK gaming star

Owners of quality content should be seen as prized assets in a fast-growing space

The number of investing options available for UK investors to get exposure to the fast-growing video gaming industry in the UK appear to be shrinking fast after this week's bid for video games for hire developer **Sumo (SUMO:AIM)** from Chinese internet giant **Tencent**.

Of the remaining three direct quoted plays, the name that stands out because of its deep intellectual property and the rich user experience it provides is fantasy games developer and publisher **Frontier Developments (FDEV:AIM)**.

Frontier was founded by industry veteran David Braben who co-authored the seminal game Elite and owns a 32.8% stake in the company.

Even after an 8% gain on the day of the Sumo announcement, Frontier's shares are still 30% below their January highs, which we believe presents a good opportunity to get onboard.

The fall in the shares looks like it was driven by temporary factors. Firstly, positive sentiment towards the sector has waned since the removal of restrictions, along with other sectors that have benefited from the lockdown.

Secondly, Frontier has had some teething issues with *Elite Dangerous Odyssey* which was released on PC on 19 May and prompted user criticism. The company believes these issues have been resolved without any long-term reputational damage.

FRONTIER DEVELOPMENTS
BUY
(FDEV:AIM) £22.65

Market cap: **£905.1 million**

STRONG ROSTER OF RELEASES

One of the key attractions of Frontier is its strong roster of game releases over the next few years and a fast-growing third-party publishing arm, Frontier Foundry, which is expected to release three new titles in the current fiscal year to 31 May and then five-to-six games per year from 2023.

One release which has creating some excitement is a new game based on the popular *Warhammer 40,000* franchise owned by **Games Worksop (GAW)**, due to be released on PC in 2022 on Steam and the Epic Games Store.

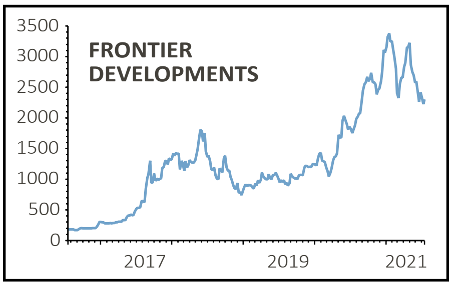
Meanwhile, the annual *F1 Manager* is expected to launch in early fiscal 2023 (after 1 June 2022).

An underappreciated aspect of Frontier's games, argues investment bank Jefferies, is its focus on regular content updates, user generated creative content and an ever-evolving game play experience.

This means Frontier attracts stickier users which will be a big advantage as the working practices normalise post pandemic. The recent increase in Covid-19 infections also suggests that indoors activities may continue to dominate people's recreational time longer than some had thought.

Jefferies estimates that Frontier's strong release schedule and back catalogue will lead to sector leading revenue growth of around 60% in 2023, and yet the investment bank reckons that, looking at earnings growth and the price-to-earnings ration on a two-year view, the shares trade at a valuation discount to peers **Team 17 (TEAM:AIM)** and **Keywords Studios (KWS:AIM)**.

Consensus forecasts put the shares on a May 2022 PE of 33 times. While not stunningly cheap we believe that recent weakness represents a great opportunity to get exposure to the fast growing gaming industry. [MG]



HIPGNOSIS SONGS FUND

(SONG) 121P

Gain to date: 4.8%

Original entry point:

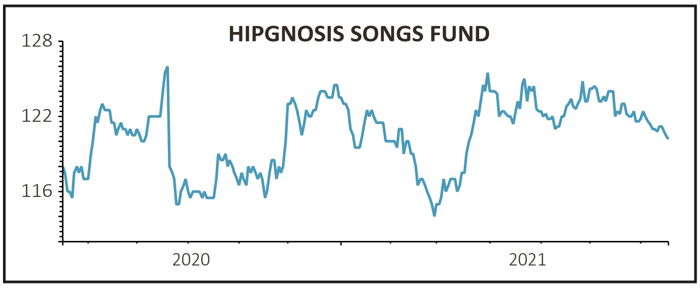
Buy at 115.5p, 18 June 2020

Members of Parliament have called for changes to the music streaming system to ensure fair pay for songwriters. The current system typically sees the songwriter receive about 16% of royalty revenue, with the rest going to record labels and streaming platforms.

Allowing the songwriter to receive 50% of royalties could potentially benefit **Hipgnosis Songs Fund (SONG)** as it owns the rights to a large catalogue of music.

It buys the rights to songs from big name artists and producers, giving them a lump sum of cash upfront in exchange for Hipgnosis receiving future royalty income from the songs when they are used in films, adverts, performed live or played on the radio, for example.

On the inquiry into the economics of streaming by the DCMS committee, Numis says: 'It is ultimately a debate about splitting up the streaming pie and therefore there will be winners and losers depending on what exact ownership rights of a royalty is held. That said, the growth in streaming is expected to be a tailwind for total revenues.'



SHARES SAYS:
Encouraging but don't expect any near-term changes to the system. We said to buy Hipgnosis for income and it continues to deliver, reporting a 5% increase in its quarterly dividend to 1.3125p on 20 July. Keep buying. [DC]

BIFFA

(BIFF) 338.9P

Gain to date: 25.7%

Original entry point:

Buy at 269.5p, 11 March 2021

THE FUNDAMENTALS OF waste management firm **Biffa (BIFF)** and its share price have been progressing well since our buy call in March.

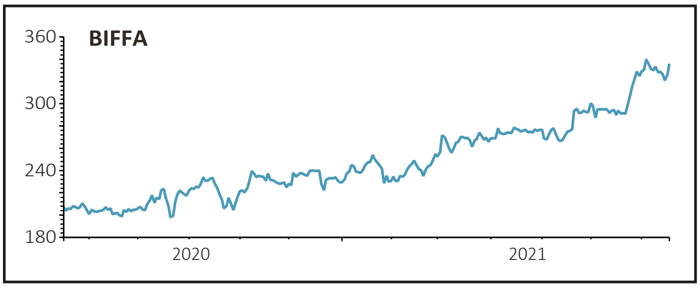
Consensus earnings estimates have since increased around 20% according to Refinitiv data, while management said first quarter trading was well ahead of its expectations, because of faster recovery in the UK economy since restrictions started to be lifted.

In the first three months of the new financial year revenue is up 10% compared with pre-pandemic levels, helped by contributions from acquisitions.

Meanwhile, volumes in the core industrial and commercial collections business are back to July 2019 levels, ahead of company expectations of around 95% of those levels.

Management also highlighted some near-term challenges caused by a national shortage of HGV (heavy goods vehicles) drivers which is being exacerbated by Covid-related absences and reported supply chain issues, but the company said it was carefully managing them.

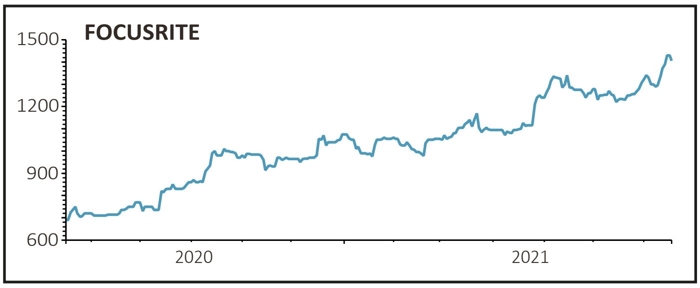
The positive first quarter update led Numis to upgrade its operating profit estimate by 10% and pre-tax profit by 14%.



SHARES SAYS:
Keep buying as the outlook for Biffa remains positive with continued growth opportunities to consolidate a fragmented market. [MG]

FOCUSRITE
(TUNE:AIM) £14.16

Gain to date: 106.1%
Original entry point:
Buy at 687p, 23 July 2020



MUSIC AND AUDIO products firm **Focusrite (TUNE:AIM)** continues to mark record share price highs driven by earnings upgrades.

The company's latest trading statement (20 Jul) once again lifted revenue and profit expectations for the financial year to 31 August 2021.

Focusrite has done well as musicians, both from the professional and amateur ranks, have been forced to record at home, creating demand for the company's hardware and software. Expansion into providing equipment for areas such as the booming podcasting space and film and television dubbing has also helped.

In addition to the beneficial effect on profit through increased revenue, the company has experienced a 'substantial decrease' in travel and trade show expenses due to Covid restrictions which will result in full year profits being 'significantly ahead' of market expectations, which is usually code for at least a 10% beat.

The main fly in the ointment is a shortage of semi-conductors and other components which is making it difficult to meet strong levels of demand. The board also stressed the one-off nature of the cost savings from reduced live performances and this could make it tough to beat this year's earnings next year.

SHARES SAYS: ↘
The stock has had a great run but now seems a sensible time to book a healthy profit. [TS]

UK STOCKS

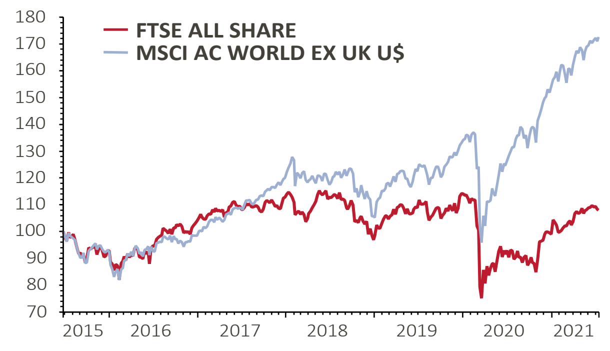
CHEAP AND FINALLY ON INVESTORS' RADAR

By **Steven Frazer**
News Editor

UK stocks represent a 'once in a generation' opportunity for investors, say fund managers. After years dogged by political and economic uncertainty, and soggy stock market performance, this is a welcome change of mood music.

'UK equities are on a 30 year low versus peers, and we see this as a once in a generation opportunity to get involved in some fantastic businesses,' said Rory Bateman, manager of the **Schroder British Opportunities Trust (SBO)**, which is hoping to capitalise on the return of confidence to the UK.

Bateman suggests that we are at the start of a 'long journey for the UK,' but with the worst of business uncertainty seemingly behind us, investors can at last look to the broad sunlit uplands promised by returning confidence in the UK stock market.



More sceptical investors may scoff at Bateman's apparent dose of British pluck, yet his optimism is shared by an increasing number of colleagues, peers and analysts. *Shares* has made it easy for investors wanting to play the 'Blighty Bounce' by pulling together a selection of top stock picks and fund options geared to UK stock market recovery and prosperity, including supermarket chain **Sainsbury (SBRY)**, bikes and car parts retailer **Halfords (HFD)**, funds **Odyssean Investment Trust (OIT)**, **Henderson Opportunities Trust (HOT)** and more.

EMERGING OPTIMISM

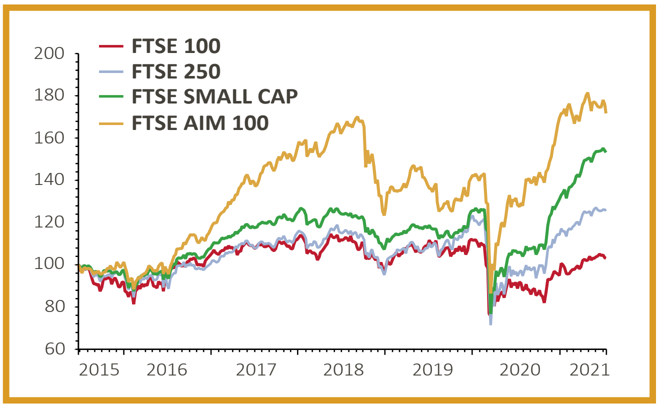
'We have held the view for some time now that with Brexit behind us and the population vaccinated Britain's long sojourn in the wilderness could make it an attractive destination for investors in a world where valuations are high in many key markets,' said Pascal Dowling of research firm Kepler Partners.

Kepler recently ran a survey among clients asking them to describe their outlook for UK equities, and the findings were overwhelmingly positive about the prospects for a continued catch up for UK stocks. According to the study, 77% of the 87 fund management respondents said they'd increased their exposure to UK equities since the third quarter (Q3) 2020, and a similar proportion said they think UK equities remain undervalued as we approached the 19 July unlocking deadline.

This emerging attack of positivity is in stark contrast to recent years, where the UK has been one of the most unloved markets among fund managers during the post-referendum period. But numbers crunched by Kepler analysts demonstrate just how scorned Britain had become.

From 23 June 2016 to the end of September 2020 (just before the vaccine rally), the FTSE All Share fell 3.5% in dollar terms, with the MSCI AC World Index up 50.5%, thanks in part to the pound falling 12.9% versus the dollar. Even as late as April this year, fund managers were 'underweight' the FTSE All Share, according to the Bank of America Merrill Lynch Fund Managers Survey.

That research showed fund managers were around 1.5 standard deviations below their historical average positioning. Standard deviation is a mathematical measurement that shows how



far away from the average something is.

This was despite the market being one of the best performers in the reflationary rally. Since 1 October 2020, the FTSE All Share is up 37% in dollar terms compared to 27.2% for the FTSE World ex-UK, helped by a 7.9% jump in sterling versus the dollar. Treasure Island to 'Plague Island', as the New York Times dubbed Britain in early December 2020.

'Remarkably, the same survey in May [2021] found that fund managers were 1.5 standard deviations overweight versus their historical average,' said Kepler's Dowling.

If this recovery is to have legs it will need overseas help. Majedie's James de Uphaugh, manager of **Edinburgh Investment Trust (EDIN)** and the UK equities arm of Majedie Investments, said a crucial element of the rally would be driven by the return of international capital to UK equities.

'2016 was a big issue – at one point the UK was classed something like Italy in political terms. That is hugely rear-view mirror now; there is political certainty and we have seen an increasingly sure-footed Covid campaign of late, after a bad start, and we can see that international investors are starting to come back.'

> *Higher health and safety costs during the pandemic impacted margins and led to a 55% drop in reported operating profits*

Uphaugh says that the risk premium of the UK market is now falling and has scope to fall further. 'Brexit is no longer the suppurating sore that it once was,' the manager said.

MORE THAN MERE REFLATION

As for the pandemic, in the short term there may have been a vaccine boost to sentiment towards the UK, as its faster rollout allowed it to open-up some activities earlier than countries on the continent.

According to **BlackRock Throgmorton Trust's (THRG)** Dan Whitestone, the UK's positive outlook is based on far more than a simple 'reflation trade', although he stresses that active management is the key to unlocking the UK's potential.

'There are some phenomenal companies out there and some really awful ones, which makes it a very exciting place for active managers,' said Whitestone.

Gamma Communications (GAMA:AIM), **Electrocomponenets (ECM)** and **YouGov (YOU:AIM)** are among his top portfolio holdings.

Georgina Brittain, who has managed the **JPMorgan Smaller Companies' Investment Trust (JMI)** since 1998, echoes Whitestone's rallying cry for UK smaller companies, saying that the opportunity for UK investors away from the blue-chips is, at this point, like nothing she had seen before in her lengthy career.

'We are in sell to buy mode, literally crawling through the portfolio looking for things we can bear to let go so we can raise money to add others,' she said.

It's not just new listings either. While exciting companies like cybersecurity firm **Darktrace (DARK)**, e-commerce play **THG (THG)**, online auction platform **Auction Technology (ATG)** and online greeting cards seller **Moonpig (MOON)** have undoubtedly helped to re-energise investor interest, established companies are also lengthening Georgina Brittain's stock hit list.

'We are seeing lots of fresh blood coming to the market, but it is across the board; I only wish that we had more money to buy without having to sell first,' she said.

Future (FUTR), **Games Workshop (GAW)** and **Dunelm (DNLM)** are her portfolio's three biggest stakes right now.

WHAT COULD GO WRONG

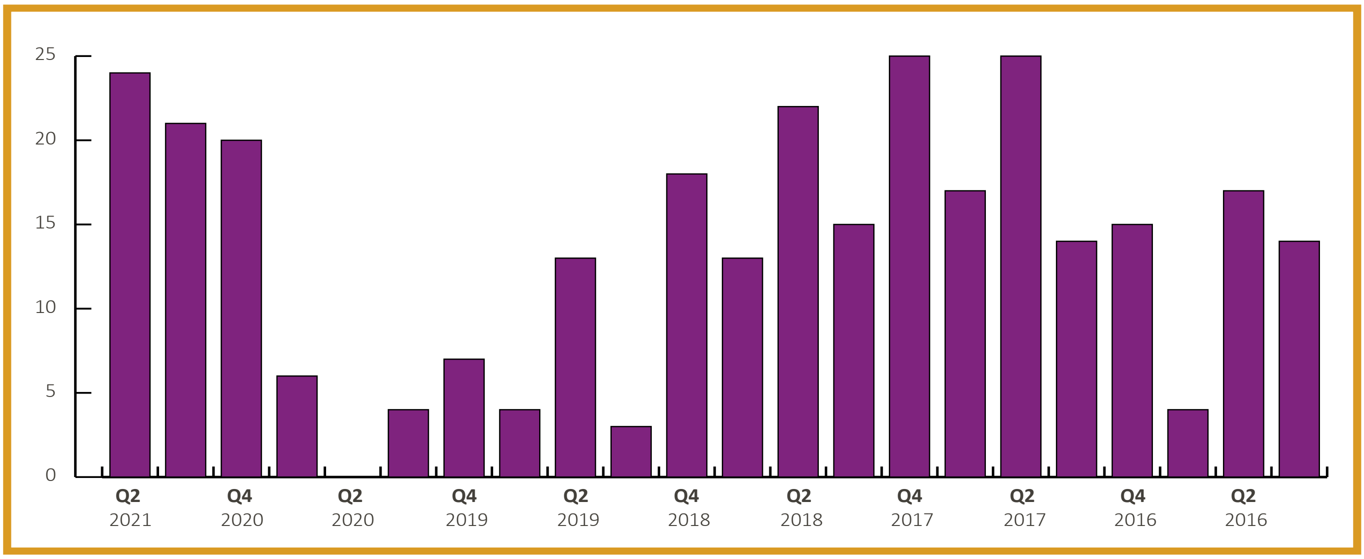
While this renewed and widespread optimism among experts is hugely encouraging for the future of the UK stock market and individual companies, threats remain that could yet nip recovery in the bud.

Inflation remains on the collective minds of economists and investors everywhere and latest Office for National Statistics data showed the UK economy speeding up again with the UK inflation rate hitting 2.5% in the year to June, the highest for nearly three years, as the unlocking of the UK economy continued, rising beyond 2.1% expectations and ahead of the Bank of England's 2% inflation target for a second month.

JPMorgan's Georgina Brittain continues to believe that wage inflation in particular is likely to be a short-term problem for UK companies.

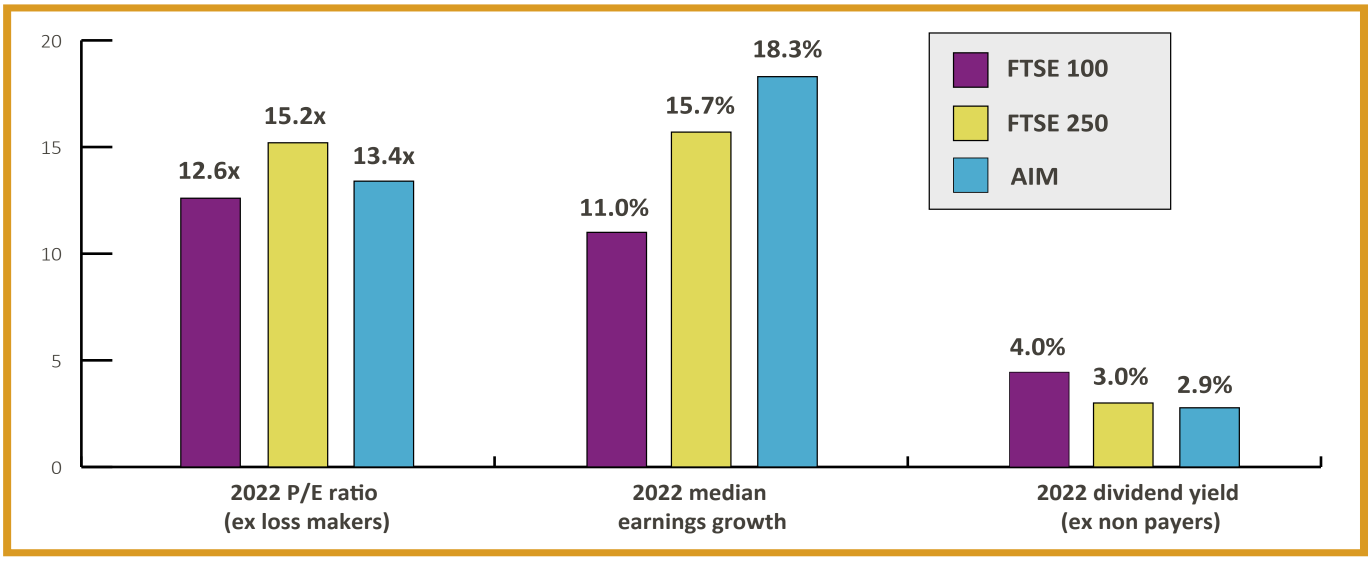
If you look at what is going on in this country

Flood of new UK listings



Source: LSE, Statista

Finding value



Source: Datastream, JPMorgan

– the unemployment numbers and the number of people on furlough – there is something of a disconnect between that and the wage pressure we are seeing, which suggests it is somewhat transitory. This is a very exciting time,' the fund manager said. Other clouds on the horizon include mounting Covid cases linked to the Delta variant which raises the sceptre of restrictions being reimposed.

Brexit is also not entirely dead in the water as a threat. The UK could yet invoke Article 16 over Northern Ireland, which could throw the whole EU deal under a bus. 'For this reason we think sentiment is probably still more depressed towards the UK than it could be, which is potentially both an opportunity and a threat,' said Kepler analysts. The hope is that this tricky issue can be managed and any UK discount will dissipate over the medium to longer term.

THE WHEELS TURN

A final element to consider is the cyclicality of the UK stock market, and it may help explain why the UK is suddenly in favour with fund managers, and why the earnings outlook is so much better than our global peers. The FTSE's exposure to energy, basic materials and financials is worth 40.2% of the whole index compared to just 16.8% in the S&P 500 (and 29% in the MSCI Europe), according to Kepler's data.

'Perhaps this helps explain why the UK market has performed strongly in the reflationary rally since Q3 2020,' analysts wonder.

Some of the global reflationary/recovery trends which have been supportive in recent months may have peaked, with industrial commodities weak in recent weeks and CPI numbers possibly at their peak.

That said, this cyclicality and the weighting to value stocks that caused earnings to collapse during the teeth of the pandemic could now act as a tailwind.

The UK's earnings recovery is one reason why the latest JPMorgan Long Term Capital Market Assumptions study now forecasts the UK market to have the highest return potential out of all developed world markets over the next five years – and only marginally below the expected return from emerging markets.

That UK equities are on lower starting valuations may not make them screamingly cheap relative to its history, but it might suggest long-term returns won't be as hindered as other markets by any reversion towards the mean.

Shares believes that the UK still looks attractive as a recovery story, with international investors only now looking at the market more seriously after years of under-owning it.

But the risks explained above means that it is probably wiser to look for growth stories and individual stock picks rather than hoping to make easy gains by buying the index, with parts of the small and mid-cap space expected to throw up interesting opportunities on valuation grounds.

Overleaf we highlight some our own best ideas as well as some of the UK-focused funds we'd back to take advantage of a renaissance for the London market.

UK STOCK PICKS

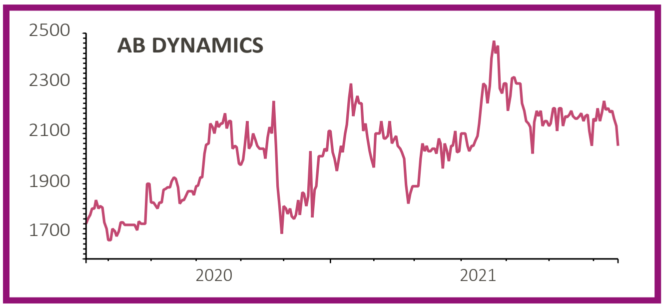
AB DYNAMICS (ABDP:AIM) £21.60

Market cap: £488.6 million

West Country-based **AB Dynamics (ABDP:AIM)** is a real British corporate success story. Joining the UK stock market at 86p per share in May 2013, its market value has since increased more than 20-fold as it has successfully positioned itself to support an automotive industry in transition.

The shares aren't cheap based on traditional metrics –2022 forecasts from Berenberg imply a price to earnings ratio of more than 50 times. However, this partly reflects a dip in profitability related to the pandemic and we think its exposure to trends in vehicle safety as well as electric and autonomous vehicles will power it forward and generate strong returns for shareholders in the long term.

The company has a track record of investing in the business for future growth, backed by a strong balance sheet with net cash of £31 million at the last count, developing a suite of unique testing products which are critical in the development of more sophisticated vehicles. Berenberg believes the company can deliver annual organic revenue growth of 10% to 15% in the medium term while also improving its margin performance. [TS]



HALFORDS (HFD) 367P

Market Cap: 735.9 million

The leading UK retailer of car maintenance products and bikes **Halfords (HFD)** has established an increasingly service-led business model with a strong digital presence.

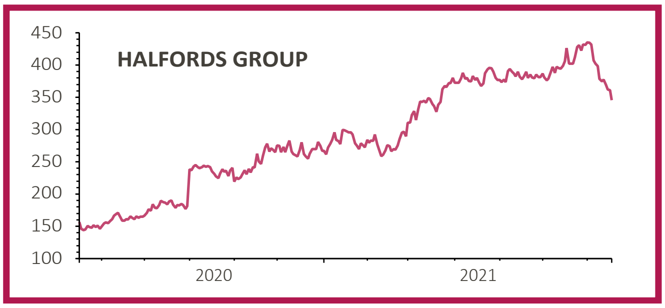
This means that for the first time, customers can access an integrated services offer across stores, garages and mobile through one website.

The company has benefited from the pandemic as more people took up cycling and driving as an alternative means of transport and exercise.

One of the key strengths of the business is its wide UK footprint of 370 auto service centres and around 470 bikes stores which have added extra convenience through the 'click and collect' sales model.

Despite the gradual removal of restrictions Halfords is still seeing pent-up demand for bikes and ongoing foreign travel disruptions should continue to support future sales momentum across both areas of the business as staycations gain ground.

Longer term there is a significant opportunity to consolidate the fragmented auto services market and the company is targeting a network of more than 1,000 locations. [MG]



HALMA (HLMA)
£27.89

Market cap: **£10.6 billion**

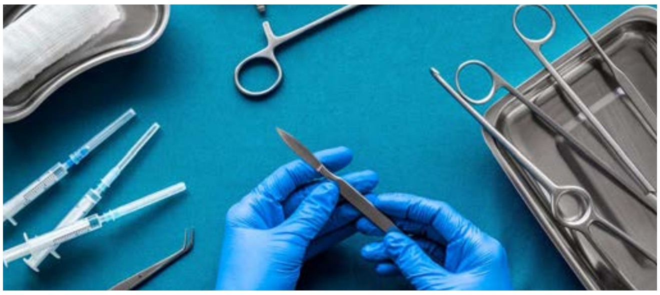
The FTSE 100 electronics engineer has an almost unblemished track record and shareholders have benefitted from this reliability for years with capital returns close to 1,000% since the end of 2009.

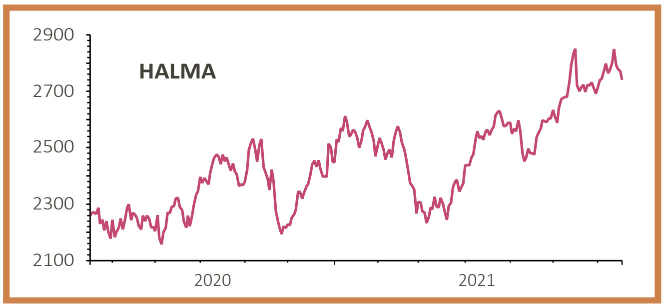
The health, safety and environmental technology group has earned a reputation for operational excellence and consistent growth, and up until pandemic struck, would almost certainly have delivered an 18th consecutive year of growth in revenue and profit.

Let's also not forget its underappreciated income story, where the business has also delivered 40 years of dividend growth.

While UK-based, **Halma (HLMA)** is exposed to global trends around health and safety regulation and demand for healthcare and life-critical resources. It makes and sells worldwide in to highly regulated markets, such as hazard detectors to environmental protection kits and sensors, which makes revenues and profits very resilient.

The company's objective is simple. It aims to double its earnings every five years while still generating strong returns. You need to pay up for this growth. The stock currently trades on 50-times expected earnings for the current financial year to 31 March 2022, falling to a price earnings multiple of 45 the year after. We think this is justified by the track record and continuing growth potential. [SF]



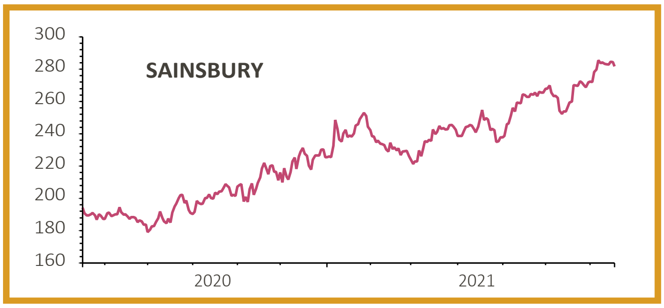


SAINSBURY'S (SBRY)
281P

Market cap: **£6.3 billion**

With a 15% share of the £100 billion per year grocery market, Britain's second-largest supermarket chain plays an integral part in national life.

Trading in the 16 weeks to the end of June produced organic sales growth of 1.6% on the same period last year, ahead of expectations for a 1.7% fall and 10% ahead of the firm's pre-pandemic sales.



Moreover, data from Kantar shows it gaining market share after sales increased by 0.4% in the 12 weeks to mid-June while its three big rivals saw their sales fall.

Management raised its full year earnings guidance, leaving analysts scrambling to upgrade their forecasts, yet the stock remains the second most shorted in the UK market.

While we don't anticipate Sainsbury falling prey to private equity, the recent bid battle for rival **Wm Morrison (MRW)** has highlighted how cheap the business is by comparison, trading on just 4.5 times EV to EBITDA (enterprise value to earnings before interest, tax, depreciation and amortization) against a multiple of 8.3 times for its smaller rival. [IC]

UK FUND PICKS

HENDERSON OPPORTUNITIES TRUST (HOT) £14.12

Market Cap: £112.9 million

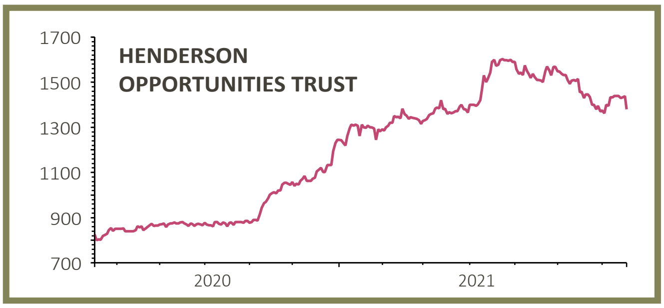
This relatively small UK investment trust is focused on finding the next generation of 'leaders' across different sectors irrespective of market cap and trades at a discount to net assets despite a good track record.

The co-managers Laura Foll and James Henderson have a strong bias towards smaller, earlier stage companies that hold significant growth potential while they are also looking to grow dividend income.

The investment style is value driven with a focus on out of favour and under-researched companies trading at attractive valuations.

Over the last three and five years the trust has grown its net asset value by an annualised 7.9% and 13.5% respectively compared with 4.6% and 8.4% for the Morningstar investment trust all company category.

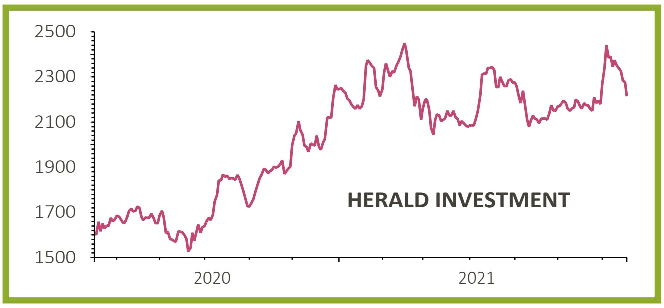
The fund's largest positions include banks **Natwest (NWG)** and **Barclays (BARC)** as well as property group **Springfield Properties (SPR:AIM)**, construction firm **SigmaRoc (SRC:AIM)** and transport infrastructure analytics software firm **Tracsis (TRCS:AIM)**. The trust has an annual ongoing expense charge of 0.9% and a dividend yield of 1.9%. [MG]



HERALD INVESTMENT TRUST (HRI) £22.85

Market cap: £1.47 billion

This is another small cap focused trust geared to technology and technology-enabled businesses - although these days small cap to manager Katie Potts includes companies up to £3 billion – it is now more global in its approach yet remains heavily exposed to UK equities (approximately 49%) where it cut its teeth as a fund.



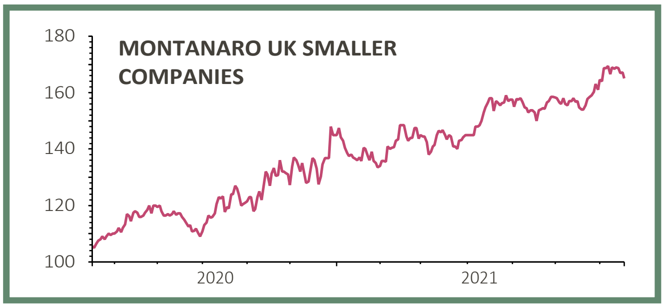
Trading 10.6% below the value of its underlying assets versus a 12 month average of 11%, this discount seems to poorly reflect an outstanding returns track record. Sure, over one-year, when growth has largely been out of favour, it has largely tracked its Investment Trusts Global Smaller Companies benchmark, returning 37% versus 36.2%. But if we take a longer view the outperformance shines through, trumping the benchmark's 79.3% five-year record with a 220% return.

Top holdings at the moment include ID and anti-fraud security business **GB Group (GBG:AIM)**, online media firm **Next Fifteen (NFC:AIM)** and Pegasystems, the Nasdaq-listed process automator. Ongoing charges stand at 1.08%, fair compared to most other tech and high growth funds. [SF]

MONTANARO UK SMALLER COMPANIES (MTU) 167.8P

Market cap: £280 million

Over the past 10 years investment trust **Montanaro UK Smaller Companies (MTU)** has achieved a creditable annualised total return of 10.1% according to data from SharePad and since launch in March 1995 it has returned 842.7% against 238.2% for its benchmark, the Numis Smaller Companies index.



Montanaro invests in smaller companies on AIM and London's Main Market. These are only small caps in relative terms as more than 80% of the portfolio features companies valued at £500 million or more.

It has an emphasis on quality which saw it underperform in the recent value rally. In the longer term, its focus on the best businesses should pay off.

Manager Charles Montanaro and his team generate their own ideas through detailed financial analysis and company site visits and are conservative on valuation.

Top holdings include cyber security consultant **NCC (NCC)**, ingredients specialist **Treatt (TET)** and animal drug company **Dechra Pharmaceuticals (DPH)**. The ongoing charge is 0.82%. [TS]

ODYSSEAN INVESTMENT TRUST (OIT) 158.5P

Market cap: £147 million

Odyssean buys stakes in UK businesses when it believes the market hasn't recognised opportunities for them to be better companies.

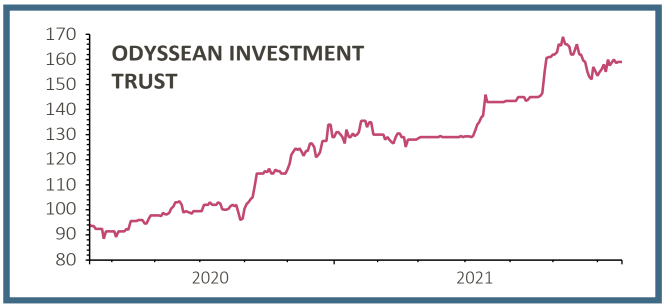
The investment trust's fund managers come from a private equity background, so they are looking for many of the qualities being sought by private equity players in takeovers.

These attributes include companies with market leadership, ability to make good returns, operating in growing markets and doing something that is difficult for other businesses to replicate.

Six of its portfolio holdings have been subject to takeover bids in the past two years, including **Vectura (VEC)** and **Elementis (ELM)**.

With private equity currently on a big spending spree, one could easily imagine that more of its investee companies could be takeover targets. Its current holdings include **Chemring (CHG)** and **Clinigen (CLIN:AIM)**.

Odyssean typically invests when valuations are lower due to short-term trading issues or because there's been a business setback. It says the market often values stocks on short-term performance, but it takes a longer-term view. [DC]



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Why Lotus Bakeries' Biscoff could be the next Oreo

Product innovation is setting the path for significant growth across several markets

Belgium's Lotus Bakeries' Lotus Biscoff is a product that many readers will be familiar with. However few will have ever looked at the company as a potential investment opportunity.

At first glance the shares, trading at €49.15, appear to be expensive. Based on 2022 forecasts they trade on price-to-earnings ratio of 38.5 times and 26 times enterprise value to earnings before interest, tax depreciation and amortisation.

PROVEN TRACK RECORD

Nonetheless, the group's proven track record of expanding its product offering through a shrewd combination of product innovation and acquisitions, has enabled it to drive growth by leveraging new products into undeveloped international markets.

This strategy follows in the footsteps of Oreo's whose success resulted from leveraging new product categories including ice cream and chocolate from its traditional cookie.

Biscoff has the potential to become the next Oreo. Looking forward the four key international markets of America, France, China and Germany could drive growth in sales and earnings.

Lotus Biscoff is a caramelised biscuit. It is the signature product that Lotus Bakeries has produced since 1932. Lotus Biscoff is short for 'biscuit with coffee' and is the snack Dutch and Belgians have traditionally serve with their coffee.

ACQUISITIONS HAVE ENHANCED THE PRODUCT PORTFOLIO

After listing on the Brussels Stock Exchange in 1998, Lotus Bakeries engaged in a series of lucrative acquisitions that dramatically enhanced the group's product portfolio. Between 1999 and 2012 four separate acquisitions added waffles, gingerbread, ginger thins and the iconic Dinosaurs children crunch biscuits to the Lotus marque of brands.

In 2015 the company made a strategic shift by diversifying into the healthy snacking segment with the acquisition of Urban Fresh Foods a UK based company that sells fruit snacks and cereals with 100% natural ingredients under the BEAR and Urban Fruit brands.

In the same year the group further consolidated its position within the healthy snacking segment through a strategic partnership with Natural Balance Foods, owner of Nakd and Trek brands.

This focus on nutrition continued with the acquisition in 2018 of Kiddylicious, a British baby snack brand that creates healthy, portion controlled snacks and meals for babies and young children. This forms the natural Foods componant of the business which sits alongside Biscoff and its Local Heroes business selling other brands of biscuit in Belgium, The Netherlands, France and the UK.

PRODUCT INNOVATION HAS PLAYED A CRITICAL ROLE

Product innovation has been fundamental in driving growth and profitability for Lotus Bakeries. According to Berenberg, the group has increased its share of innovation within the caramelised and spreads category from 0.7% in 2010 to 10% in 2020.

Lotus Bakeries has consistently innovated across different categories. In 2018 the group launched Lotus Biscoff spread that enabled consumers to enjoy the unique taste of caramelised biscuits in a sweet spread.

In addition to being an alternative to traditional spreads, it is frequently used as an ingredient for desserts like tiramisu. In 2019 Lotus announced the international launch of Biscoff ice cream.

More recently the launch of the Biscoff sandwich cookie in April 2020, in the UK, America, France and Belgium was a resounding triumph, further driving growth with strong in-store sales.

This was followed in September 2020 with the launch of Lotus Biscoff chocolate in Belgium. Nielsen data reveals that the product accounted for 21% of growth in the chocolate category in Belgium since its launch.

CAN BISCOFF BECOME THE NEXT OREO?

Oreo provides a prescient blueprint for the potential international growth opportunities that are open to Biscoff.

Oreo and Biscoff have adopted a similar strategy to securing consumer acceptance and adoption for their products. This is centred around offering innovative products with a universally attractive taste, multiple product offerings (coated confectionary and ice-cream extensions), at a competitive price point.

Oreo has a proven track record in innovating across categories including chocolate, ice cream, yoghurt, chilled deserts and cereal. In 2019 net revenue from the brand hit more than $3 billion according to its parent company Mondelez.

Biscoff has mimicked Oreo's innovation strategy in chocolate, ice cream and biscuits. Critically there is significant scope for Biscoff to innovate further into new product types.

FUTURE SOURCES OF GROWTH

According to recent research by Berenberg, America offers the largest opportunity for Lotus Biscuits. This assumes market share progression from 0.8% to 2.7%, which would generate incremental sales of €152 million. This estimate is in line with peer brands Belvita (Mondelez) and Tate's Bake Shop (Mondelez).

The potential for further penetration within the US market is reflected in the construction of the Lotus Biscoff manufacturing facility in Mebane, North Carolina in 2019, which enabled the company to commercially produce American-made Lotus Biscoff cookies.

The other three key international markets, which will drive sales and earnings growth, are France, China and Germany. Berenberg estimates that these markets can generate incremental sales of €77 million, €55 million and €22 million respectively.

To place these numbers in context Lotus is forecast by Berenberg to chalk up total group sales of €852 million in 2022.

The company benefits from strong cash generation and a solid balance sheet with net debt to earnings materially below one times. This should enable it to continue investing in innovation and to potentially strike more deals to broaden and diversify its portfolio.

By **Mark Gardner**
Senior Reporter

Why you would invest in a fund which aims not to lose cash

Capital protection vehicles have done a good job of generating robust, smoothed returns

Why would you invest in a product which has the limited ambition of not losing you any money?

For the uninitiated that question might be prompted by the existence of capital preservation investment trusts and funds whose principal aim is, as their name suggests, to preserve your cash.

However, Warren Buffett once observed that the first rule of investing is not to lose money and the second rule is not to forget the first rule and these funds actually have a decent track record.

In this feature we take a closer look at three asset managers who specialise in vehicles designed to protect capital while also purporting to offer 'smoother' long term capital growth.

THE MAIN PLAYERS

While we have focused on funds to make the analysis more meaningful, investors also have the option to invest in the same strategies through investment trust vehicles in the case of Ruffer and Troy Asset Management. Latitude Investment Management doesn't run investment trusts.

These are respectively **Ruffer Investment Company (RICA)** and **Troy Income and Growth (TIGT)**.

As the UK equity market marches ever upwards and US and European indices make new all-time highs, it might be prudent for investors to start thinking protecting gains and focusing on the risks.

The current investment landscape presents an unusual cocktail of risks due to the ultra-accommodative monetary policies adopted by the central banks after the financial crisis and the rapid rise in government debts related to the pandemic.

Duncan MacInnes, director of Ruffer reckons traditionally safe assets such as government bonds are unlikely to serve investors as well in future as they have in the past.

MacInnes told *Shares* 'governments and central banks are now more determined and more emboldened to stimulate the economy into growth, deficits be damned and to tolerate or look through higher levels of inflation'.

Founder and chief investment officer Sebastian Lyon of Troy Asset Management is of a similar view in believing that bonds may have lost some of their diversification benefits (rising in value when equity markets fall).

To underline his concerns Lyon highlighted the 20% correction in 30-year US treasuries in the first quarter of 2021, the first loss of that magnitude experienced in more than a generation.

Risks attached to bonds have been increasing over the last decade according to Lyon and he pointed out that today it would take seven years of annual interest payments to recoup the capital loss from a 1% rise in interest rates.

Notably, all the managers featured prefer to own index-linked (inflation protected) bonds, representing around a third of portfolio assets, rather than conventional fixed income.

HOW HAVE THEY PERFORMED

It's one thing talking a good game, but whatever the investment strategy, what counts most for investors is performance. All three funds

3 year cumulative performance	
Fund	**% Gain**
Ruffer Total Return	22.7%
Latitude Horizon	20.7%
Trojan Income	24.5%
FTSE All Share total return	6.3%
UK retail price index	7.2%

Source: Troy Asset Management, Latitude Inv Management, Ruffer
Data at 30 June 2021

covered in depth in this article have performed well over the last three years. A noteworthy feature of the returns is that the return profile has been smoother than underlying equity markets.

MacInnes points out that Ruffer has only had one meaningfully negative return in 25 years and the maximum peak to trough loss is less than 10%, while it has made money in the last three major bear markets in 2000, 2008 and 2020.

NO BENCHMARK

One of the key differences to note about all-weather funds is that aren't tied to a benchmark because essentially, they can invest in anything they find attractive, and ignore what their peers are doing.

For instance, the funds may opt to have zero exposure to equities or 100% exposure and every permutation in between. They can invest in alternative assets and derivatives.

It's probably fair to say that all three investment shops profiled have concerns about inflation. So perhaps it's not surprising that when reporting to their clients, inflation measures feature as one of the investment hurdles to overcome.

For example, the **Latitude Horizon Fund (BDC7CZ8)** aims to deliver total returns of 3%-to-4% above inflation over time.

The fund adopts the consumer price inflation including housing costs measure, known as CPIH as a measure of inflation.

The **Troy Trojan Fund (BZ6CNS31)** aims to beat the retail price index over the longer term, defined as between five and seven years. The RPI comprises a different basket of goods to the CPI and is also calculated differently.

The **Ruffer Total Return Fund (B80L7V8)** says its aim is to deliver consistent positive returns regardless of how financial markets perform and to not lose money in any 12-month period.

HOW THEY ALLOCATE ASSETS

There is a striking similarity in the proportion of assets allocated towards equities and inflation protected bonds.

The managers acknowledge that equities can provide a natural hedge against inflation, while also contribute towards capital growth.

Notably both Ruffer and Troy allocate specifically to physical gold and gold shares to give them direct inflation protection while Latitude adopts an indirect approach.

Latitude takes the view that buying great businesses with

Asset allocation %

	Ruffer	Latitude	Troy
Equities	39.5	45	45
Gold & Gold Shares	6.1	0	11
Index Linked Bonds	34.5	29	32
Bonds/Treasuries	10.9	12	7
Alternatives/Illiquids	5.4	0	0
Cash	3.6	14	5
Totals	**100**	**100**	**100**

Source: Troy Asset Management, Latitude Investment Management, Ruffer
data as at 30 June 2021

pricing power and commodity businesses benefiting from rising prices can provide good protection in an inflationary environment.

Companies floating manager Freddie Lait's boat include consumer stocks **Diageo (DGE)** and and Dutch brewer Heineken as well as oil giant **BP (BP.)**.

Consumer stocks were sold off during the pandemic, and Lait took advantage to add exposure at more compelling values.

This is another feature of Latitude's approach, believing that owning shares at a discount to his estimate of intrinsic value can provide an added layer of protection in wobbly markets.

Dedicated infrastructure funds and private equity managed assets have become an increasingly popular way to get exposure to assets with inbuilt inflation protection.

Lait believes he can get good exposure by owning liquid shares in public markets. Stocks owned include French concessions and construction companies Vinci and Eiffage SA.

ALTERNATIVE INVESTMENTS

Ruffer makes investments in alternative assets and illiquid investments. McInnes said the firm manages market risk either by reducing gross exposure (selling down assets) or by reducing net risk (hedging via unconventional/convex assets).

Convex assets are those where a relatively small investment can provide a skewed payoff and make a big difference to the portfolio under certain conditions.

The decision is dictated by the attractiveness of equities or other investments and/or the cost of the hedging.

Ruffer isn't afraid of investing in controversial assets to diversify and protect capital. In late 2020 it invested in bitcoin before selling out completely at a substantial profit in early April 2021.

Latitude Horizon doesn't invest in derivatives or employ leverage and the approach is to keep the strategy transparent to outside investors and highly liquid.

Likewise, Troy doesn't invest in derivatives or alternative assets and prefers investing in high quality businesses which have the potential to compound returns.

All weather funds tend to be pricier than plain vanilla funds because they offer differentiated strategies and in the case of Ruffer, provide exposure to alternative assets and complex hedging strategies.

The Ruffer fund has a relatively high annual management charge of 1.5% and ongoing charge of 1.52%. The investment trust option is cheaper at 1% of assets and an ongoing charge of 1.08%.

The Troy Trojan fund has an ongoing charge of 1.01% while the Latitude Horizon fund has an ongoing charge of 1%. Ongoing charges include the estimated trading costs on top of the management charge.

Top 10 Equity Holdings

Ruffer	Latitude	Troy
Lloyds Bank	Advance Auto Parts	Microsoft
Alexion Pharma	Texas Instruments	Gold Bullion Securities
NatWest Group	Coca-Cola	Alphabet
Ishares Physical Gold	Autozone	Unilever
BP	Alphabet	Visa
Ambev SA	Diageo	Philip Morris Int'l
Royal Dutch Shell	Heineken	Nestle
GlaxoSmithKline	Sony	Diageo
Centene	Dollar Tree	Invesco Physical Gold
Cigna	Facebook	Medtronic

Source: Troy Asset Management, Latitude Investment Management, Ruffer

By **Martin Gamble**
Senior Reporter

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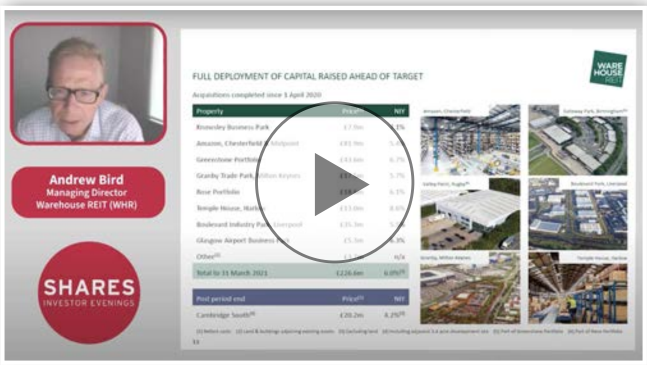

Warehouse REIT (WHR)

Andrew Bird, Managing Director

The investment objective is to provide shareholders with an attractive level of income together with the potential for income and capital growth by investing in a diversified portfolio of UK commercial property warehouse assets. The Group will only invest in warehouse assets in the UK.

Destiny Pharma (DEST)

Neil Clark, CEO

Destiny Pharma is a clinical stage biotechnology company. It is engaged in the development of new anti-microbial drugs to address the growing and unmet demand for prophylaxis and treatment of life-threatening drug-resistant bacteria.

Diurnal Group (DNL

Martin Whitaker, CEO

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

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International Biotech looks for M&A booster shot

Company's underperformance linked to restrictions on investing in vaccine stocks

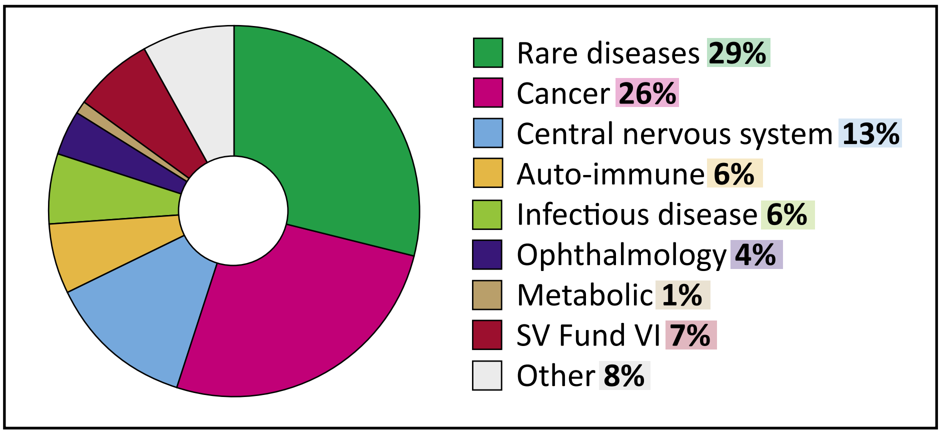
When Kate Bingham, managing partner of SV Health Managers LLP was appointed chair of the UK Vaccine Task Force by the Government, it made life awkward for the team managing the **International Biotechnology Trust (IBT)**.

That's because Bingham oversees the unquoted part of the portfolio, representing around 11.2% of the trust's assets and to ensure there were no conflicts of interest, the managers precluded themselves from investing in companies developing promising vaccines, with this restriction set to stay in place until the end of December 2021.

INTERNATIONAL BIOTECHNOLOGY TRUST
(IBT) 758.3p
Market Cap: £309.9 million
Premium to NAV: 0.03%

The stocks it was prevented from buying included one of the big winners, US biotech firm Moderna, whose shares are

IBT - portfolio breakdown



Source: Bloomberg, SV Health Managers LLP

up over 10-fold since the start of the pandemic.

Co-manager Ailsa Craig estimates that the value of the companies that were effectively 'off-limits' make up around 10% of the trust's benchmark, the Nasdaq Biotechnology index.

This accounts for some of the trust's underperformance over the last year with the net asset value flat compared with the benchmark return of 6.9%.

Meanwhile the shares have fallen 3.2% resulting in the small premium to net asset value virttually disappearing.

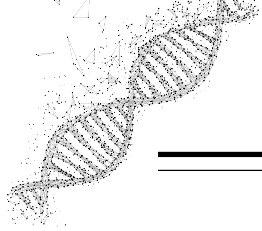
It is worth noting that the trust actively manages the discount/premium by buying shares when a discount emerges and issuing shares when the shares trade at a premium.

Over the last five years the trust has delivered a return in net asset value of 61.9% compared with 71.2% for the benchmark, while the shares are up 92%.

CHANGE IN PERSONNEL, NO CHANGE TO STRATEGY

Lead manager Carl Harald Janson who has led the team since joining SV Health in 2013 stepped down in March but his services will be retained as a senior advisor.

The co-lead managers of the



trust are now Ailsa Craig who has been with SV Health for 15 years and Marek Poszepczynski, who was recruited by Janson and has worked closely with Craig for several years.

Research house Kepler said the change represented an evolution rather than a step change in management.

Their expertise comes at a price with an annual charge excluding performance fees of 1.29%. This is towards the higher end of the biotech and healthcare trust space and higher than the 1.16% average for the sector according to data from investment trust industry body the Association of Investment Companies.

STRONG DIFFERENTIATORS

The biotechnology sector can be volatile due to the early stage nature of the companies in the index and the nature of scientific discovery, which can bring about abrupt changes in fortune.

An impressive and attractive feature of the trust's long-term outperformance has been the low volatility of its returns.

This is due to the manager's risk mitigation policy and the wide diversification achieved across different therapeutic areas and stages of drug development.

The managers reduce risk by trading around binary events such as the results of clinical trials, reducing weightings ahead of an event and topping up once the results are known, if appropriate.

The trust focuses on therapeutic areas which have strong pricing power such as cancer and orphan drugs.

Orphan drugs are intended to treat rare diseases. This niche area conveys certain financial advantages such as several years of exclusivity, drugs being readily reimbursed by insurers, and regular exemption from price controls.

International Biotechnology Trust top 10 quoted holdings

Company	Therapeutic area	% NAV
Horizon	Rare diseases	7.1
Gilead	Infectious diseases	6.4
Seagen	Cancer	5.4
Exelixis	Cancer	5.2
Alnylam	Rare diseases	5.1
Neurocrine	Central nervous system	4.8
Regeneron	Ophthalmology	4.5
PTC Therapeutics	Rare diseases	4.2
Vertex	Rare diseases	3.8
Biohaven	Central nervous system	3.7
Total		**50.2**

Source: IBT Data as at 31 May 2021

The team looks for companies addressing unmet medical needs and which have a single or wholly owned asset or own a monopoly position in a market.

Around 75% of the portfolio is invested in companies that either have revenue which is growing fast or are more stable and profitable, with the remainder invested in development stage firms.

Another differentiating feature of the trust is its commitment to pay a dividend equal to 4% of its assets, which is paid out of capital.

Finally, the trust provides investors access to innovative, early-stage biotech companies via a holding in SV Health's unquoted portfolio, SV Fund VI, utilising its venture capital skills.

CURRENT POSITIONING

While the small cap names in the Nasdaq Biotechnology index have performed very well, larger names which the trust has exposure to have not participated in the market advance and the managers believe these 'out of favour' names are ripe to play catch-up, trading on cheap valuations.

In addition, the trust has built-up exposure to smaller companies in the $5 billion-to-$20 billion market cap range, which the managers believe could be attractive merger and acquisition targets for big pharma and biotech.

These companies are those which have passed the usual hurdles of proving a drug is both safe and effective, significantly de-risking the business.

However, they lack the marketing muscle and distribution capacity of the bigger firms, which provides an opportunity to add near-term contribution to the revenues and profits for the acquirer.

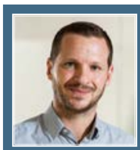
Good examples highlighted by Craig include Biohaven which has a new migraine drug recently launched and Horizon Therapeutics, a rare disease company recently launched a drug for Thyroid Eye Disease during the pandemic which has been incredibly successful.

By **Martin Gamble**
Senior Reporter

Will I benefit from the triple-lock?

AJ Bell pensions expert Tom Selby examines the system and how it might change

I reached state pension age three years ago but only part of my payment seems to benefit from the triple-lock. Is this right? And do you think the triple-lock will stay intact given the economic situation?
Pau



Tom Selby
AJ Bell
Senior Analyst says:

	Flat-rate pension (weekly)	Basic-rate state pension (weekly)
2021/22	£179.60	£137.60
2022/23 (5% increase)	£188.60	£144.50
2022/23 (6% increase)	£190.40	£145.85
2022/23 (7% increase)	£192.15	£147.25
2022/23 (8% increase)	£193.95	£148.60

Source: Shares

For the past decade or so the state pension has risen in line with the 'triple-lock', meaning it increases by the highest of average earnings, inflation or 2.5%.

For 2021/22, for example, with both earnings and inflation low – in part because of the pandemic and subsequent national lockdown – the figure used for the triple-lock was 2.5%.

The triple-lock only applies to the flat-rate state pension and the basic state pension, which in 2021/22 stand at £179.60 and £137.60 per week, respectively.

Prior to the introduction of the flat-rate state pension in April 2016, people often built up various other entitlements alongside their basic state pension. These included the additional state pension and graduated retirement benefits.

These state pension add-ons usually only increase in line with CPI (Consumer Prices Index) inflation rather than the triple-lock. Historically, the Government has used the CPI figure for September of the previous year, meaning for 2021/22 the increase was just 0.5%.

You can read more about how the state pension works here.

While retaining the policy could add billions of pounds to public spending at a time of severe fiscal pressure for the country, unpicking it would break a manifesto commitment.

Lockdown has created an extreme set of circumstances which saw salaries suppressed in 2020, with millions of people furloughed on 80% of their usual wages.

In the three months to May average earnings rose by an eye catching 6.6% and many expect the figure for the three months to July – historically used as the reference point for the triple-lock – to be even higher.

If average earnings rise by 8% in the three months to July, which looks entirely plausible based on the current data, this could increase the value of the flat-rate state pension by £746.20 to over £10,000 a year, or £193.95 per week (see table above).

Sunak and prime minister Boris Johnson have both hinted at possible changes to the triple-lock, with Johnson reportedly saying there needs to be 'fairness for pensioners and taxpayers'.

Options the Government could consider include scrapping the earnings element of the triple-lock – perhaps temporarily – or smoothing the earnings figure over a longer period of time.

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

22 July 2021 | SHARES | 33

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Why Chinese stocks are still not partying

Anniversary of the first meeting of the country's Communist Party is marked by weak sentiment

Tomorrow (23 July) heralds the one-hundredth anniversary of the first meeting of the Chinese Communist Party and the country's leadership continues to mark its birthday with a series of high-profile events, speeches and actions

Whether the centenary is anything that investors can mark with pleasure remains more of a moot point, even if the benchmark Shanghai Composite index trades some 15% above the levels reached just before the news of the pandemic seeped out of the Middle Kingdom in early 2020. These doubts persist for three reasons:

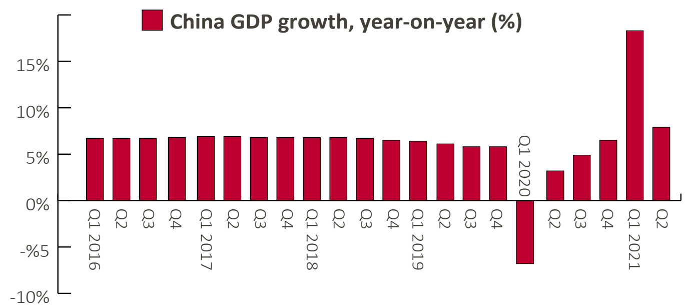
First, the president and general secretary of the Communist Party, Xi Jinping, marked the anniversary of the party's foundation on 1 July with what many in the West saw as an aggressive speech as he warned any foes would be met with a 'wall of steel'.

Second, China continues to intervene in financial markets, often in not-so-subtle ways. The crackdown on internet giants such as Alibaba and Meituan, and cybersecurity investigation into ride-hailing app Didi immediately after its stock market flotation in the US looked like expressions of displeasure with a trend toward overseas listings and a reminder to entrepreneurs of who was really boss.

Finally, China's second-quarter GDP growth figure of 6.7% year-on-year undershot economists' forecasts. This perhaps serves as a reminder that China is trying to combat the economic fall-out of the pandemic and keep the economy going on one hand, yet seeking to avoid letting financial markets, asset prices and debt get out of hand on the other.

Beijing and president Xi are hardly on their own in this respect – the UK, US, the EU, New Zealand, Australia and Canada are also members of what is a hardly exclusive club – but political legitimacy perhaps rests most fundamentally upon economic progress, employment and increasing prosperity than it does in China than anywhere else, not least because the authorities really have no-one else to blame if anything goes wrong.

China's second -quarter GDP growth rate slightly undershot economists' forecasts



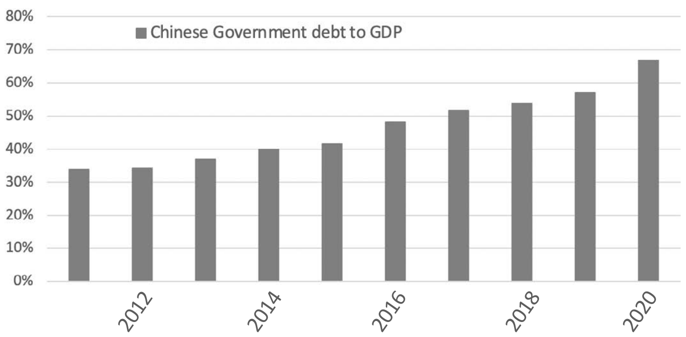
Source: National Bureau of Statistics of China, Refinitiv data

DEBT DILEMMA

The last point is perhaps the easiest to tackle. Granted, China has a relatively low government debt-to-GDP ratio of 67% but that number is rising quickly. Moreover, the opaque structure of Chinese State-Owned Enterprises, let alone the

RUSS MOULD
AJ Bell Investment Director

China's debts continue to grow



Source: IMF

so-called shadow banking system, mean the overall national debt-to-GDP figure is a less healthy 270%, according to China's own National Institution for Finance and Development.

China may therefore be generating growth, but the quality of that growth looks questionable, given its reliance on fiscal stimulus and cheap debt. This perhaps explains why the Shanghai Composite index is trading well below its 2007 and 2015 highs even as the economy keeps expanding. A timely reminder that investors should never use macroeconomic data alone when it comes to selecting stocks, indices and funds (be they active or passive) to research and follow.

In the interests of balance, it must be noted that China's currency is trading relatively strongly against to the dollar, after a six-year slide, so markets may not be too worried about the economic foundations (although again the US faces the same challenges).

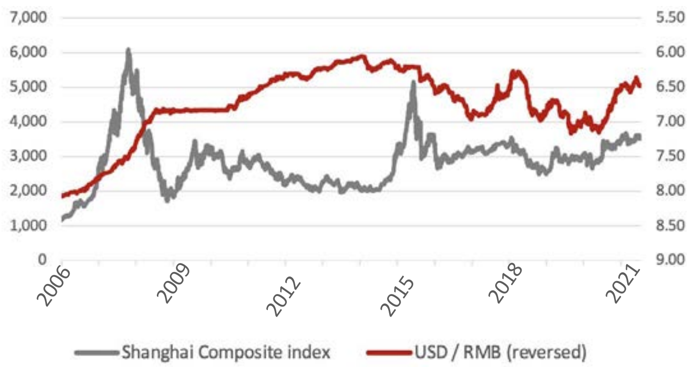
POWER PLAY

Geopolitical risk is something which with all investors must live but there is little they can do about it, barring factor it into the risk premiums they demand when buying assets in certain countries – or in plainer English, pay lower valuations to compensate themselves for the potential dangers involved.

Sino-American relations remain strained, to say the least, as Beijing and Washington wrestle for supremacy in key industries, notably mobile telecommunications and semiconductors.

This is prompting talk of a new Cold War, a view

Strong economic growth is not translating into new stock market highs even as the renminbi ends a six-year slide



Source: Refinitiv data

perhaps supported by president Xi's powerful speech on 1 July. Investors will be hoping it does not spill over into a hot war over Taiwan, for example, whose strategic importance is only heightened by the global semiconductor shortage.

But if investors can do little about geopolitics, they can do everything when it comes to corporate governance, either on their own or by paying a fund manager to do the donkey work for them. And perhaps the greatest concerns lie here, at least when it comes to Chinese equities.

Beijing's indifference to the damage done to Didi Chuxing's share price in the wake of the security investigation and assertion that US regulators cannot check Chinese audits of firms with listings in America is a big red flag (if you will pardon the expression). No-one, from a private individual to a trained fund manager, can invest in a firm if audited, verifiable and reliable accounts are not available.

This reminder that China has its own agenda – one that is designed to preserve the Communist Party's hegemony well beyond the first hundred years – affirms that investors' needs are secondary.

They are welcome to keep buying stakes in Chinese firms, or funds which track Chinese indices or own Chinese equities, if they wish. But they need to be sure they are paying suitably lowly valuations to accommodate the potential risks, which should also be in keeping with their overall tolerance levels.

The case for making the big pension switch

It is important to find the right home for your retirement savings

Pensions are a bit like puppies; they're for life, not just for Christmas. Since pensions auto-enrolment was introduced in 2012, almost everyone will hold a pension of some description for most of their life.

But pensions themselves come in different shapes and sizes, and many that were set up back in the 1990s and 2000s are now looking a bit like the mobile phones of that era – more than a little out of date. If your pension does resemble a Nokia 7700, it's usually fairly straightforward to transfer it to a more modern model, but there are some pitfalls to be aware of.

IS YOUR PENSION A DINOSAUR?

Unlike a mobile phone, it might not be immediately apparent whether your pension is a dinosaur or not. There are a couple of key things to look out for when assessing if your pension is still fit for purpose.

First take a look at the performance of your pension fund. That can be easier said than done, as some providers are shy about broadcasting performance data. Perhaps this is because these plans are so old people have forgotten about them, or perhaps a less generous interpretation is that the numbers won't exactly paint a positive picture.

Alongside performance consider the charges. In combination high charges and weak performance can be pretty devastating for your long-term wealth. Take stakeholder pensions, for example. When these were introduced by the government two decades ago, they were designed as a low cost pension option, carrying annual charges of a maximum of 1%.

That looks pretty steep by comparison with charges today, particularly when you consider that many of the funds available in these plans were simply index tracker funds in all but name. By simply following the index and charging up to 1%, serious long-term underperformance is guaranteed, and that ultimately means smaller pensions for savers when they come to retire.

GETTING COMPETITIVE ON COST

In this scenario, it's worth considering switching to a competitive index tracker fund, which you could find for a charge of around 0.3% per annum including platform costs. Or alternatively, by switching to a properly actively managed fund, you at least give yourself a chance of outperformance and in many cases you won't pay more than 1% in annual charges each year.

This brings us to another reason you might want to switch out of an existing pension scheme, particularly if it's a bit long in the tooth. It may be that the fund selection available to you leaves something to be desired.

This can be particularly relevant if the fund you hold has been underperforming, or perhaps you need some better options to provide you with an income when you retire.

If you're happy to choose your own investments, you might think about moving to a SIPP (self-invested personal pension), where a range of funds, investment trusts, ETFs and shares are available at low cost. By switching to a modern pension you'll also be able to manage your pension online, or through a mobile app, which makes things a lot easier.

Your private pension is probably the biggest investment you'll ever own

WATCH OUT FOR WARNING SIGNS

So what about the pitfalls? Well, a big red warning sign should be flashing if you have any kind of defined benefit pension, or final salary scheme. These guarantee you a certain level of income and they are immensely valuable, so it's almost certainly best to stick with them, no matter how old they are. If there are some circumstances which mean you do wish to transfer out of a defined benefits scheme, this is an area which is best navigated with the help of a professional financial adviser, because it's an irrevocable decision which can have far-reaching financial consequences.

Another snag to be aware of is transferring your current workplace pension to a provider of your choice. If you're contributing to one of these, it will have to comply with modern regulations, which means it will at least have reasonable charges. But you may still think about transferring somewhere else, to open up a wider range of investment, for instance.

However you need to be careful that you don't interfere with the employer contributions going into this scheme, as you definitely don't want to miss out on those. In most cases it should be possible to transfer some of your pot while keeping employer contributions going into the scheme, but if you're looking to do this, speak to your HR department first to find out how best to transfer without closing the plan down entirely.

THINK ABOUT YOUR PENSION AS AN INVESTMENT

It's strange to think about how many times we've all traded up mobile phones in the last 20 years, and yet billions of pounds are still sat in pensions that were set up decades ago. Part of the issue is that often these schemes were set up by an old employer, and now the only record of them is sitting in a dusty filing cabinet in the attic.

Part of the problem is that many people think pensions aren't really investments, but actually nothing could be further from the truth. Your private pension is probably the biggest investment you'll ever own, and so it's worth giving it a bit of TLC.

By **Laith Khalaf**
Financial Analyst

Can Dignity ever reclaim its defensive qualities?

Funeral director has staged a Lazarus-like resurrection but is still 70% below its highs

Pull up a one year chart of funeral services provider **Dignity (DTY)** and you'll be kicking yourself if you didn't invest 12 months ago to generate a spectacular 200% gain. But draw a long-run chart and you'll see the shares remain more than 70% below 2016's £28-a-share peak, as the funeral director has endured a turbulent period in a history it can trace back to 1812.

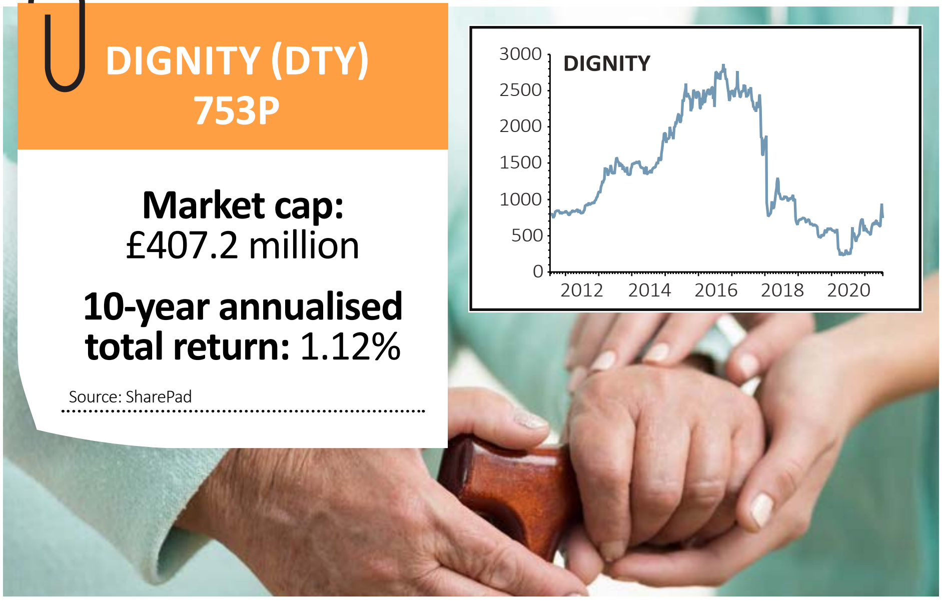
Now under new management and with a fresh strategy, Dignity will be looking to take the next step in its recovery from a very difficult period for the business.

DIGNITY (DTY) 753P

Market cap: £407.2 million

10-year annualised total return: 1.12%

Source: SharePad



THE BACKGROUND

The UK's sole listed funerals business, Dignity is a nationwide 'end of life' business operating funeral homes as well as crematoria, the latter division a valuable asset that recently attracted an unsolicited approach.

Dignity was highly prized by investors for years as the ultimate defensive. Due to the non-discretionary nature of the day-to-day business, the Sutton Coldfield-based company benefited from rising profits and the predictable cash flows to fund a stream of dividend payouts.

But then things turned sour. Dignity had to re-think its entire pricing model, alarming for a company that carries debt, triggering a massive profit warning in early 2018 and a severe share price slump thereafter as confidence in the stock crumbled.

It transpired Dignity had been charging the bereaved increasingly high prices for funerals while underinvesting in service improvements and the branch estate at the same time, thereby enticing cheaper competitors into an unregulated funeral market with low barriers to entry.

Dignity's underlying pre-tax profit slumped by 30% to £54.4 million and £37.7 million in the years to December 2018 and 2019 respectively due to the funeral price cuts needed to fend off competition.

And despite Covid-19 directly contributing to a 14% increase in the UK 2020 annual death-toll of 663,000, adjusted pre-tax profit dwindled by a further 20% to £30.7 million last year, in large part due to government-imposed funeral attendance restrictions.

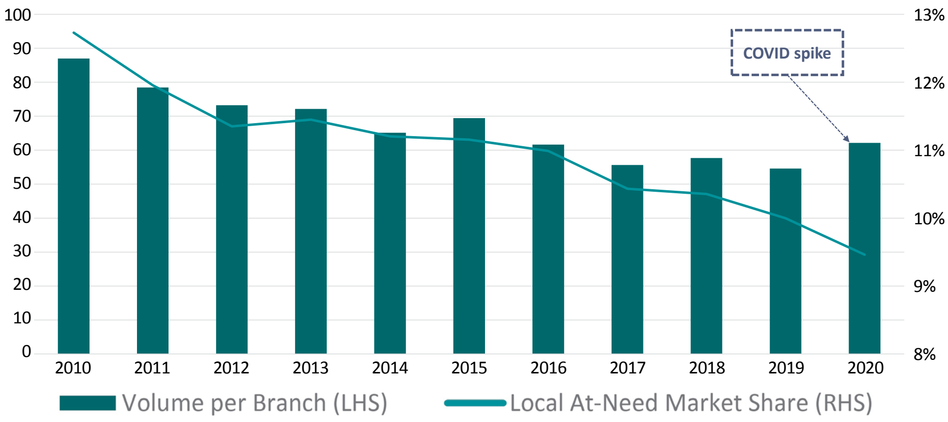
A Competition and Markets Authority (CMA) investigation into the funeral and crematoria industry has created additional uncertainty, while Dignity continues to ready itself for regulation of the funeral plan market by the Financial Conduct Authority (FCA).

But the business is demonstrating some vital signs. In May, Dignity reported a better than expected first quarter performance with underlying operating profit up 35% to £26.1

million, driven by a 27% year-on-year increase in the number of deaths due to Covid, although this has begun to reverse as Dignity laps last year's period of elevated deaths and the vaccine rollout takes effect.

The company hasn't paid a dividend since June 2019 and won't be reinstating the shareholder reward until it returns to a sustainable and stable financial footing.

Dignity's per branch and market share performance declines



Source: Dignity

DIAGNOSING DIGNITY'S PROBLEMS

Having pushed for a strategic shake-up, Dignity's largest shareholder Phoenix Asset Management Partners recently persuaded shareholders to oust executive chairman Clive Whiley and installed its own chief investment officer Gary Channon as executive chairman, sparking a wave of resignations from fellow board members.

Presenting at Dignity's annual general meeting (23 June), Channon said the previous strategy had set the company up for long-term failure, with a focus on growing profits by increasing prices faster than volume losses. Rather than high-quality organic progression, growth was being purchased through acquisition, with Dignity paying ever increasing prices for new businesses.

Price increases under previous management led to a loss of competitiveness and many new competitors emerged, resulting in market share losses. Channon also argued that the transformation plan set-out by Whiley failed to tackle the core problem, resulting in a steady decline in per branch performance and market share.

CHANNON'S FIX

Channon has outlined a new strategy to enable Dignity to realise its unlocked value. The vision is for Dignity to be 'the UK's leading end of life business, renowned for its excellence and high standards, represented and embedded in the community with strong local brands, whilst offering the best service for the best prices'.

At last count, Dignity's funeral market share was 12% and its crematoria market share amounted to 11.5%. Under Channon's leadership, the £407.2 million cap now aspires to achieve 20% funerals market share in 10 years' time, including both pre-need (pre-arranged funeral plans) and at-need funerals.

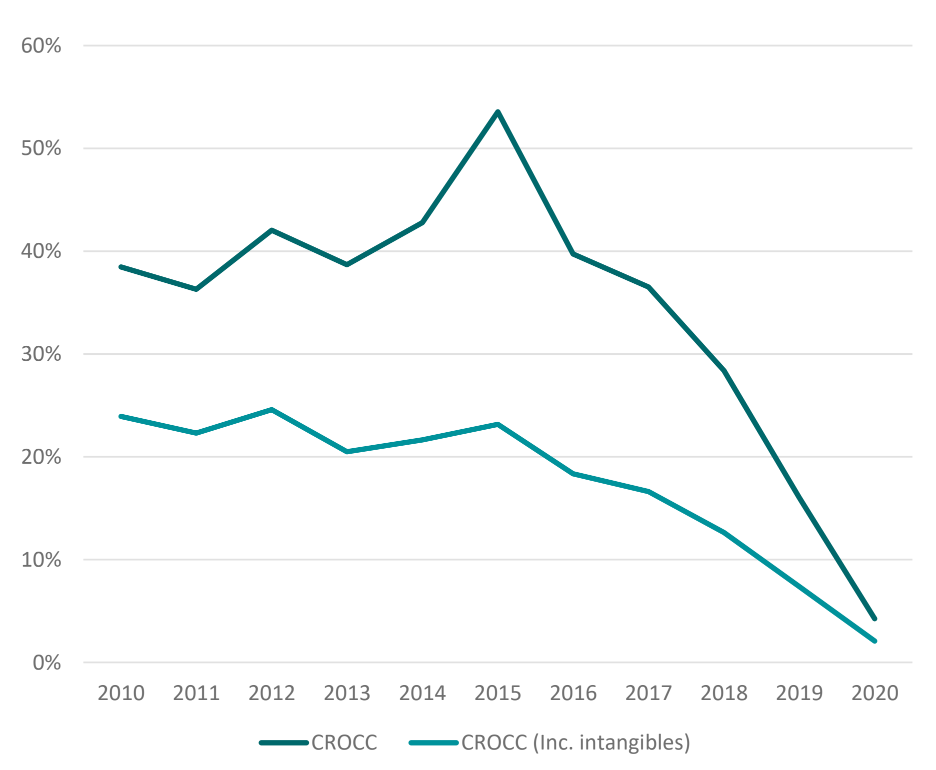
The focus is on prioritising the sale of funeral plans through branches rather than telephony partners. Contracts have already been cancelled with five telephony partners assessed by Dignity as both uneconomical but also not representative of the high standards it expects.

Channon candidly concedes this move will lead to a loss of roughly 35% of Dignity's 2021 budgeted funeral plan division revenue, yet he points out this is largely mitigated through £12 million in savings from 2021 budgeted telephony commission costs.

Under the new strategy, Dignity will also focus on growing the addressable market for funeral plans, growing percentage share of funeral plans sold and lowering the cost of acquisition. Channon explains Dignity will also prioritise investment into standards of care, facilities and the underinvested branch estate, alongside a combination of a competitive pricing and product mix, cultural change and stronger branding, to grow local market share.

In the crematoria business, Dignity will now concentrate on increasing both volume and yield per crematoria by increasing throughput and growing ancillary sales while continuing to build out the pipeline of crematoria and build additional capacity into existing facilities. Furthermore, Dignity will embrace direct

Dignity's Cash Return on Core Capital (CROCC)



Source: Dignity

cremation and cut prices to cater to 'the location agnostic value segment of the market'.

According to Channon all capital allocation decisions in the future will aim to optimise cash return on core capital. For these purposes return equals the cash return to the business after funding capital expenditure, tax and other routine expenditures and core capital is the money and assets required to operate the business. The plan is to update investors on this key metric regularly.

THE FUND MANAGER'S VIEW

Dignity is the biggest holding in the **Artemis Alpha Trust (ATS)**, managed by Kartik Kumar and John Dodd. Kumar stresses that the 'very attractive' fundamental characteristics of the end of life industry remain unchanged.

'These were slightly forgotten with the issues Dignity was suffering from,' he explained. 'This is a very predictable market. I like the quote, "two certainties in life are death and taxes", and this is catering to one of those.'

Kumar pointed out that for the last decade, effectively the death rate in the UK has been suppressed. 'And for the next 10-to-20 years, because of demographics that were created 60-to-80 years ago, you know with a high degree of certainty that the overall industry will be growing for the next 20 years.'

The Artemis money manager added that the funerals and cremations industry has 'some unique features. It is highly predictable, it is a-cyclical – the numbers don't change so much with a recession – and slightly differently from the last 10 years, it will be growing for the next 10 years.'

Kumar believes the most unique feature about Dignity is that in the industry, it is the only operator of both crematoria and funeral homes. 'About 79% of the roughly 600,000 people in the UK that passed away last year were cremated and that share has been growing,' he explained.

'But on top of that, in terms of actually servicing a funeral, Dignity has about a 10% market share and 800 branches here in the UK. So they are the only operator that is effectively vertically integrated both having funeral homes and crematoria.'

Artemis UK Alpha supported the change in the strategy and Kumar insists Dignity is 'a business that has many of the building blocks to be a very successful operator in a very attractive market.

'This company could be a price leader, a service leader, and have a growing market share in its funeral business, but also when you combine with that the attractive features of its crematoria and its pre-need funeral business, you can end up with some very interesting results.'

Dignity has conducted trials on what the impact of cutting prices would do, 'and they've been really quite favourable' according to Kumar, who believes there is 'a lot of potential left in the business, we're scratching the surface of each part of the business'.

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

27 July: Games Workshop, Moonpig.
28 July: Hargreaves Services. **30 July:** Victoria.

Half-year results

23 July: Beazley. **27 July:** Ascential, Croda International, Capital & Counties, Reach, Restore. **28 July:** Barclays, British American Tobacco, GlaxoSmithKline MusicMagpie, Primary Health Properties, Rio Tinto, Smurfit Kappa, St James's Place. **29 July:** Anglo American, AstraZeneca, BAE Systems, Devro, Elementis, Equiniti, Indivior, Inchcape, Informa, Lloyds Banking, National Express, RELX, Rentokil, Royal Dutch Shell, Segro, Smith & Nephew, Spectris, Totally. **30 July:** Essentra, IMI, International Consolidated Airlines, Intertek, Man Group, Natwest, Rightmove.

Trading statements

23 July: Brewin Dolphin. **27 July:** Greencore, Virgin Money. **29 July:** Compass, Sage, Evraz.
30 July: Vodafone, Yamana Gold.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

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

CONTRIBUTORS Laith Khalaf, Russ Mould, Tom Selby

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

PRODUCTION
Head of Design: Darren Rapley
Designer: Rebecca Bodi

CONTACT US:
support@sharesmagazine.co.uk

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