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DIY BOOM

Why there's more to come and the stocks to buy now

US TECH TITANS: The lowdown on results from Alphabet, Apple, Microsoft and Tesla

Contents

CFA UK Publication of the Year CFA UK Journalism Awards 2019

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

Bank of America still thinks oil will hit $100 in 2022

Despite recent volatility big gains expected but what would it mean for markets?

Guessing where the oil price will be in a year's time feels like the equivalent of pinning the tail on the donkey except you are underwater and your hands are tied behind your back.

There are so many moving parts to the crude market and intangibles around what direction the economy might take.

Analysts at the big investment banks don't have the luxury of sitting on the fence and instead must stick their necks on the line. Bank of America's commodities team believe the recent drop in the price of oil to $69 per barrel, as producers' cartel OPEC finally came to an agreement on production increases, is a buying opportunity and still expect Brent to hit $100 per barrel in 2022. At time of writing the price had recovered to $74 per barrel.

The bank's prediction is partially based on a much broader recovery in demand from aviation sector by the middle of next year, to encompass the developing world. Bank of America says: 'Once again, Indonesia and India have lagged while Brazil and Russia have pushed ahead with acceleration in flights. And China has yet to get back to pre-Covid levels when it comes to air traffic.

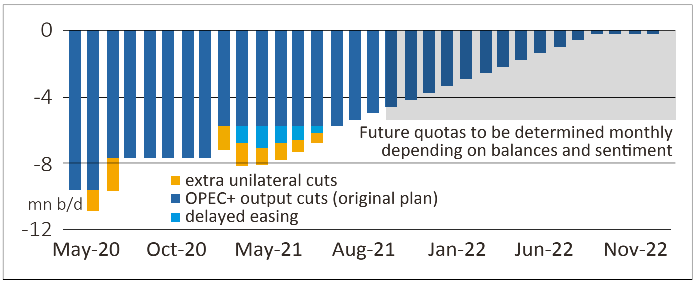
They also note that the new OPEC-plus agreement (the plus essentially being Russia) extends controls on supply through to 2022.

WHAT IF IT IS RIGHT?

Let's assume Bank of America is right – and notably it does not expect prices to stay at $100 for the duration of 2022 with an average price of $75 per barrel forecast – what would a move to this higher level for the first time since 2014 mean?

It would suggest the economy had continued to make a robust recovery in the wake of the pandemic. However, with oil prices effectively acting as a tax on growth, a rise to $100 could put this growth under some threat.

OPEC+ has extended the current crude production management deal through 2022



Source: OPEC. Bank of America

It might also be good news for the FTSE 100 given the heavy weighting for oil and gas firms **BP (BP.)** and **Royal Dutch Shell (RDSB)**.

However, for these businesses a spike in oil prices could create a conundrum. The extra income it implies would be welcome but what they do with this extra income could become a source of some debate among shareholders.

How much of it should go on paying down debt will certainly be a key talking point. With the economics on oil projects looking more attractive, will there also be pressure to backslide on the commitment to a transition to cleaner sources of energy? Furthermore, will there be a clamour for more generous dividends?

You could file these issues in the category of being nice problems to have, but it does represent a real balancing act for those at the helm of these companies.

The risk is that decisions taken with the aim of making a quick profit from a higher oil price risk could lead to these firms' long-term obsolescence in a carbon neutral world.

By **Tom Sieber** Deputy Editor

US markets make new highs despite rising virus concerns

The S&P's gains have been driven by a few heavyweight technology giants

US markets continue to make new all-time highs spurred on by loose monetary policy and government stimulus policies, while increasing vaccinations have encouraged more people back to work, reducing unemployment levels.

However, investor enthusiasm has been somewhat dented by worries over the delta variant and its potential to slow the rate of economic recovery.

This has been reflected by strong gains in US 10-year bond prices, which have made solid gains in recent weeks as yields have fallen back. Bond prices move in the opposite direction to yields.

For example, since the last Fed meeting yields have dropped more than a quarter of a percentage point.

Whatever the reasons, one consequence of lower yields is that the S&P 500's gains have been largely driven by the interest rate sensitive technology shares with the Nasdaq 100 index registering a new high.

The economically sensitive Russell 2000 index meanwhile has failed to join the party and didn't make a new high as some of the excitement over the rate of recovery has dimmed.

The Russell 2000 index has more of a value bias and had benefited from the shift towards value at the expense of growth which began last November but has waned somewhat since early June.

Another factor influencing the recent relative outperformance of Nasdaq was an expectation that quarterly results from the technology heavyweights like Alphabet and Apple, Amazon, Facebook, and Microsoft would be better than expected.

It might be the case that investors just got too carried away with the strength of recovery in the early part of the year and bonds need to work off some of the bearishness which drove 10-year yields from 0.4% to close to 2% in May.

In other words, investors who had bet that yields would keep rising and bond prices falling have lost money as yields have recently declined. As such, these investors may have been forced to close their positions.

Once this technical process is complete there is room for yields to climb back up, assuming the pace of recovery is maintained, argues Morgan Stanley, which believes the Fed will lay out its plans for reducing its stimulus at its September meeting, in preparation for a March 2022 start.

This has become the consensus view according to a Bloomberg survey where three quarters of economists expect the Fed to hold off on signalling its plans until the 26 August meeting at Jackson Hole or the 21 September meeting.

If such a scenario were to come to pass, bond yields would likely be higher, giving a boost to the Russell 2000, and dampening enthusiasm for the interest rate sensitive technology sector. [MG]

Tech heavyweights slip despite stellar results

Apple, Alphabet, Microsoft beat forecasts but regulation threat lurks

Three of the world's largest technology companies crushed quarterly forecasts as Apple, Alphabet and Microsoft continue to reap rewards from the perfect positive storm created for big tech by the pandemic.

But share prices failed to keep pace with the record revenue and profit after a strong run in to the tech quarterly reporting season, illustrating the adage that it is better to travel than to arrive.

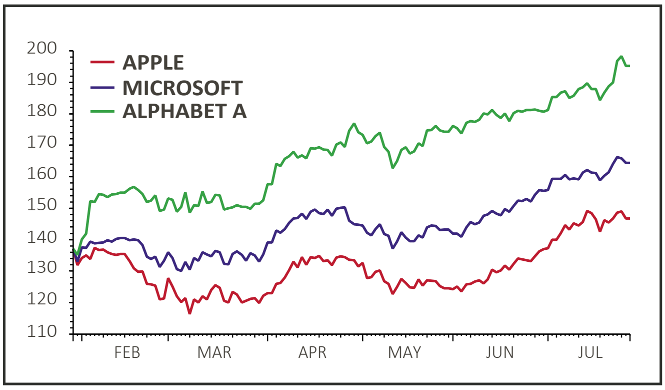
Stock prices of all three companies nudged lower directly after posting earnings for the three months to 30 June with losses running between 1% and 2.5%. With the weakness perhaps reflecting market scepticism over their ability to sustain such stellar returns.

Apple reported a $21.7 billion profit for the three-month period to 30 June, its best fiscal third quarter in its 45-year history, boosted by strong sales of the iPhone 12 and growth in its services business.

Alphabet, Google's parent company, posted second-quarter revenue of $61.8 billion, a 62% jump on the same period a year earlier, and a profit of over $18.5 billion, more than doubling its profits for the same period last year. The company's advertising revenues rose 69% from last year.

Microsoft also beat expectations, reporting revenues of over $46 billion for the quarter, a 21% increase compared to the same quarter last year.

The results come after Tesla reported a record profit on 26 July in one of the busiest ever weeks for quarterly US earnings results. Big tech earnings continued with Facebook on 28 July and Amazon on 29 July.



Apple, Alphabet and Microsoft are worth a combined $6.5 trillion and, combined with Amazon, represent around 20% of the entire weight of the S&P 500.

TEPID REACTION

The tepid reaction for big tech, and global equities generally, came as investors continue to worry about the intensifying crackdown on technology companies by Chinese authorities.

China has recently clamped down on several tech firms for anti-monopoly actions, including a $2.8 billion fine levied on Alibaba in April. Last year, fintech group Ant Financial had its stock market listing blocked by the regulators until it complied with new capital requirements and make other changes.

Chinese stocks listed in the US had their worst slump since 2008 amid concern over Beijing's actions.

Outside of China, many of the world's largest technology companies are facing their own pressures as regulators mull arming themselves with new powers aimed at capping the market dominance of Amazon, Apple, Facebook, Alphabet and others. [SF]

Reckitt and Unilever struggle with accelerating cost inflation

Results suggest firms lack pricing power in key product areas

A 27 July first half results update from consumer goods giant **Reckitt Benckiser (RKT)** and the 9% slide in the share price on the day will have served as a rude awakening for investors who thought big brands could raise prices at the stroke of a wand.

Despite a 'structural rebasing' in demand for its hygiene brands such as Dettol and Lysol due to the pandemic, Reckitt says it is facing price rises of between 8% and 9% in raw materials so far this year.

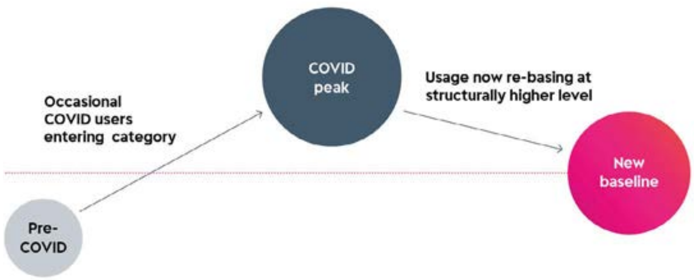
'Cost inflation accelerated in the second quarter and it will take time to offset this headwind with productivity and pricing actions being implemented in the back half of the year and early next year', according to chief executive Laxman Narasimhan.

As a result of these cost pressures, operating margins are now likely to be between 0.4% and 0.9% below 2020's level, offsetting the benefit of Narasimhan's decision to ditch the Chinese infant formula business and the perennially underperforming Scholl footcare unit.

Reckitt isn't alone in struggling with rampant cost inflation, however. In a presentation to US investors, rival Proctor & Gamble – which competes head-on with Reckitt across a range of household products – reported price increases for the year to April of between 100% and 200% in resins, 70% to 200% in ethylene and 75% to 125% in propylene.

The US firm also cited $200 million of higher freight costs and supply constraints as contributing to a $600 million negative swing in its profits for

Reckitt: disinfection is experiencing a structural rebasing



Source: Reckitt Benckiser

the period to April.

Anglo-Dutch firm **Unilever (ULVR)**, which is focused more on food and personal care products than household goods, also flagged rising cost inflation in its half-year update and trimmed its guidance for operating profits from a small rise to flat on last year.

'Cost volatility and the timing of landing price actions create a higher than normal range of likely year end margin outcomes. We are managing this dynamically and expect to maintain underlying operating margin for 2021 around flat', said chief executive Alan Jope.

Where Unilever has an advantage is in food and personal care, where brands like Ben & Jerry's and Magnum are seen as having a 'touch of luxury', while Dove and Lux have become highly-trusted, consumer-friendly names, and shoppers are prepared to spend that little bit extra to treat themselves or make themselves feel good.

The question for all consumer goods firms though is can they rise prices without harming volumes. Historically, the answer has been no, with volumes tailing off around six months after they have pushed through price hikes. Only time will tell whether this time they can make them stick. [IC]

Marlowe bidding for Restore makes perfect sense

The two support service companies have a shared history

The attempted takeover of **Restore (RST:AIM)** by **Marlowe (MRL:AIM)** represents an interesting development as the two businesses go back a long way. Strategically there is merit in combining the two entities.

Marlowe has effectively emulated the success of Restore as a buy and build support service group. Both companies were backed by Lord Ashcroft and Marlowe's chief executive Alex Dacre ran the M&A team at Restore.

Marlowe's incoming chief financial officer Adam Councell held the same role at Restore between 2012 and 2019, and the bidder's non-executive director Charles Skinner was CEO of Restore from 2009 to 2019 – so it is fair to say the suitor is well versed with how the target's business is run.

Restore used to be called Mavinwood and was involved in activities such as survey and repair work for insurers. Having struggled for some time, it sold off a chunk of its operations, brought in new leadership and shifted the focus to document storage, office removals and IT services. The share price has risen 1,510% since changing its name in September 2010.

Marlowe started out as a cash shell (or SPAC as they are known today) called Shellshock. In 2015, a strategy was put in place to focus on essential testing markets, and more recently it has branched out into human resources and compliance technology services. Since the name change six years ago, the share price is up 808%.

For years, Restore was the bigger of the two companies, but Marlowe has seen a surge in its market value in the past year, now valued at £666 million versus £574 million for its peer. Both have recently been chasing technology-related deals, but the market appears to have been more excited about Marlowe's prospects given the stronger share price reaction.

Parking the two companies together makes sense as they both deal with facilities managers, so there will be natural cross-selling opportunities. It would also make the enlarged group a more credible player for companies who want to deal with multi-skilled suppliers.

Restore's board has rejected two bid proposals to date, the highest being 530p per share in a mixture of cash and shares.

Marlowe has gone public with the takeover interest clearly to put pressure on Restore to engage in conversation and to see if the target's shareholders like the idea of a business combination. It's a well-trodden path to follow and the next step would be to raise the offer price again.

Should a deal fail to happen, one might expect Restore's shareholders to put pressure on the company to accelerate its growth, perhaps through entering new business areas. It seems unlikely they would let it continue as per before. [DC]

Big buying opportunity at Avon Protection

Scope for considerable upside as the defence and protection firm moves past its recent problems

For a defence and protection kit designer and manufacturer **Avon Protection (AVON)** stock hasn't provided investors with very much of either during the past year. But we believe this is a temporary blip that has created an excellent buying opportunity for investors to gain access to what has been a high returns story for years.

Analyst consensus sees scope for 29% upside to £34.80 if the company gets its recovery bang on.

You may not recognise the company but Avon Protection has roots that date back to the rubber boom of the late 1800s under its old name Avon Rubber, a change made earlier this month. From car tyres and conveyor belts, its got into safety kit during the Second World War where it made many of the millions of gas masks supplied to Brits.

AVON PROTECTION
BUY
(AVON) £26.94

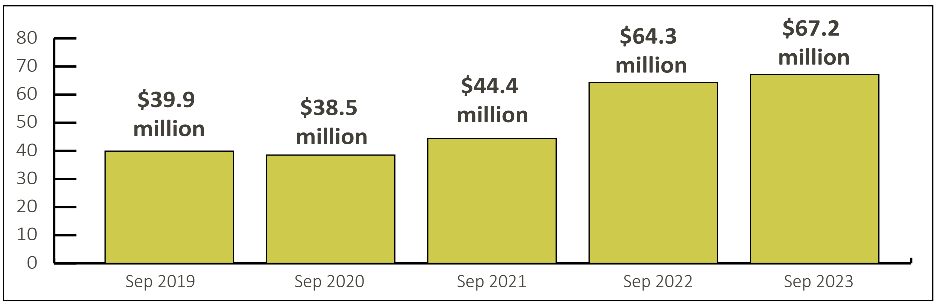
Market cap: **£824 million**

These days the FTSE 250 company concentrates exclusively on the design and production of life critical personal protection systems. Effectively it makes masks and respiratory systems and builds ballistic body armour for militaries and security services across the world.

This is a high-margin, high-returns, cash-generative business that we believe is well positioned in markets underpinned by, sad to say, long-term growth drivers.

We must all face the fact that the world is a place where terrorists, extremist groups and even some governments are increasingly prepared to use explosives, chemical and biological agents and other frightening tools of destruction on populations at large. This means that demand for the type of advanced respiratory protection systems and ballistic equipment that Avon manufactures is only likely to rise.

Avon profit set to recover



Source: Refinitv data, 27 July 2021

FAILED TESTS AND CONTRACT DELAYS

Avon's recent problems started just before Christmas when it was forced to admit a hit to

2021 performance because of delays on an important US Army defence deal.

Initial deliveries under the company's contracts for the US Defence Logistics Agency Enhanced Small Arms Protective Inserts and US Army Vital Torso Protection body armour were supposed to start early in 2021 but they have not been knocked into 2022 after some of the bits of kit failed initial tests.

Making matters worse, Avon also had to own up to the fact that a protest against its sole source contract to provide the US Army with 'Next Generation Integrated Head Protection Systems' means that there will be no meaningful revenue from that this year.

Yet analysts at investment bank Berenberg remain hopeful that lost income this year can be made up. 'The order book ($155 million) makes up circa 50% of the shortfall, with military orders contributing around 25% and run and repeat orders with short turnaround times from Team Wendy (a recently acquired business) and First Responder customers delivering the final 25%,' they say.

This does leave this year (to 31 December) second half weighted, a risk that some investors may feel uncomfortable taking despite management's optimism.

END OF THE DOG DAYS

Since early December 2020 the share price has been a proverbial dog, slumping from £46.25, because of the contract delays. This means that while £1,000 invested in a low-cost FTSE 100 tracker would now be worth £1,185.70, an equivalent sum put into Avon stock would have been whittled down to just £789.

Yet the difference between one-year and five-year returns is like night and day, with Avon's shares generating an average 26.4% a year return for investors over the longer timeframe, based on Morningstar data. The FTSE 100's equivalent is just 4.89%. Compound these returns and the wealth creation gap becomes cavernous.

It's the same story over 10 years, with the UK's benchmark index's average yearly 5.65% and Avon's 25.6% widening the compounded returns gap to Grand Canyon-like proportions.

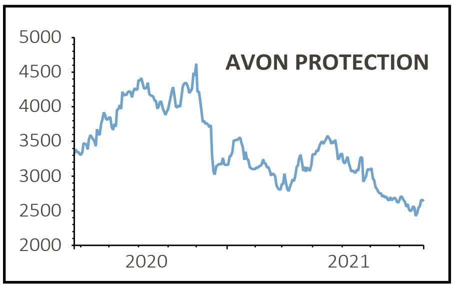
News to look out for includes new testing of the body armour contract, with the product line now thoroughly reviewed, redesigns and modifications pushed through. Success here cannot be guaranteed but if solutions are approved it would be major catalyst for the market to rethink the stock's valuation.

The forward price to earnings ratio has fallen from more than 40 to the current 23, according to Refinitiv data. The risks have not disappeared entirely but they do seem much less threatening now. With Avon continuing to pull in new orders and just $13 million of net debt, it has scope for valuing-adding acquisitions over the coming months also. [SF]

Compounded five-year returns compared

	Avon Protection stock	FTSE 100
Day one	£1,000	£1,000
Year one	£1,264	£1,049
Year two	£1,598	£1,100
Year three	£2,019	£1,154
Year four	£2,552	£1,211
Year five	£3,226	£1,270

Source: Morningstar, Shares



Why now is a great time to buy Hotel Chocolat

Digital initiatives have enhanced the ability to attract customers and build the brand

HOTEL CHOCOLAT
BUY
(HOTC:AIM) 371p
Market cap: **£462.6 million**

Luxury chocolatier **Hotel Chocolat (HOTC:AIM)** could see a step change in its long-term growth rate based on a dramatic shift in its sales mix towards digital channels including subscriptions and partners.

While the shares aren't cheap, trading on around 30 times earnings, we believe a faster growth trajectory and increased lifetime value of its fast-growing customer database is underappreciated.

After experiencing an uplift in growth, with sales growing 21% in the year to 27 June to £165 million, the firm has taken action to ensure it has the capacity to meet medium-term demand.

Management estimated that if it maintained recent growth rates, it would exceed production capacity within three or four years.

Consequently, the company raised £40 million on 23 July to enable it to double the amount of revenue it could generate to around £500 million a year.

DIGITAL PIVOT

While Hotel Chocolat suffered from store closures during lockdown, it was able to pivot the business online, spearheaded by its loyalty programme.

In the UK the firm now has more than 1.9 million subscribers compared with 0.9 million before the pandemic, while globally the customer base has increased by 61% to 3.3 million.

An increased focus on digital sales has catapulted US revenue by 84% in the last 10 weeks compared with 2019.

The shift in sales mix means that digital and partner sales now represent over half of revenues compared with a third before the pandemic. Importantly, they have remained a substantially larger proportion of total revenue after the reopening of stores.

Investment bank Berenberg reckons the increased focus on digital has the potential to cannibalise physical stores and raises a question mark over the UK roll-out.

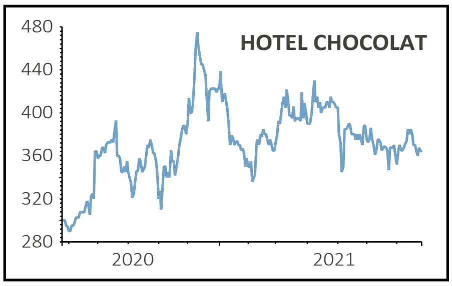
However, the bank also concedes that by developing a flexible multi-channel sales model, Hotel Chocolat has strengthened its long-term growth opportunity.

Hotel Chocolat's management believe that a strong digital and subscription model should work in harmony with a network of 'brand-building' stores designed to deepen customer engagement.

We see similarities to the business model operated by fantasy miniatures company **Games Workshop (GAW)**, where physical stores and digital channels work together to reinforce the strength of the core brand.

Meanwhile the wholesale channel has also grown rapidly during the pandemic, partly due to partnerships with well positioned online retailers like **Ocado (OCDO)** and Amazon.

We are impressed by how well the company has adapted and evolved through a challenging environment and believe the growth opportunity looks highly exciting. [MG]



MORGAN SINDALL

(MGNS) £23.85

Gain to date: 25.1%

Original entry point:

Buy at £19.06, 15 April 2021

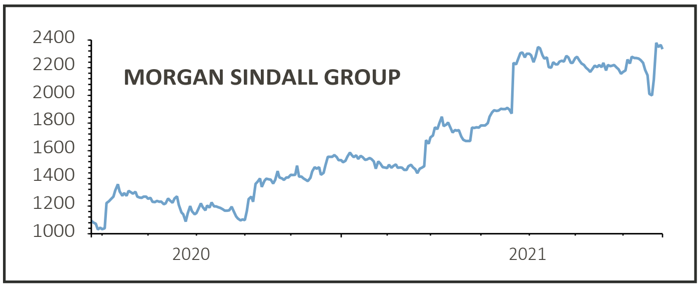
CONSTRUCTION AND REGENERATION firm **Morgan Sindall (MGNS)** took us and the market by surprise last week with an unscheduled update announcing better than expected trading in its first half and that full year earnings would be 'significantly ahead' of its previous forecast.

Shares jumped as much as 15% on the day, but have given back 25p or so as the excitement dies down, although analysts are beavering away raising their estimates after the firm said trading had 'continued to accelerate' since its previous positive update in April.

The group is scheduled to publish its half year earnings next week, but it has already guided investors to expect pre-tax profits of around £53 million compared with just £15.7 million last year and £36.3 million in the same half of 2019.

The order book stood at £8.3 billion at the end of June, with growth in construction and infrastructure providing good visibility for the full year and likely to generate divisional earnings 'significantly stronger than expected'.

Analysts at Numis point out that, despite the pandemic, they have had to upgrade their February 2020 forecasts for 2021 earnings four times, and their current pre-tax profit estimate of £122 million is £24 million higher than their estimate nearly 18 months ago.



SHARES SAYS: ↗

Keep riding the positive earnings momentum. [IC]

SDI

(SDI:AIM) 194P

Gain to date: 11.2%

Original entry point:

Buy at 174.5p, 27 May 2021

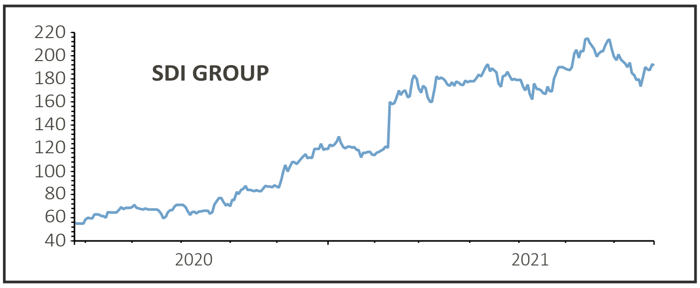
IN THE CONTEXT of the global pandemic **SDI's (SDI:AIM)** full year to 30 April 2021 results were impressive. In line with May's trading update, revenue growth of 43.2% to £35.1 million (19% pre-acquisitions) and fully adjusted pre-tax profit soaring 70% to £7.4 million effectively beat market expectations in real terms.

Yes, there were some significant one-off Covid-19 related boosts which helped offset weakened demand elsewhere, but as the world gradually returns to normality analyst anticipate a return to steady and reliable progress.

As a reminder, SDI is a collection of multiple subsidiaries that design and manufacture digital imaging, sensing and control equipment used in life sciences, healthcare, astronomy, manufacturing, precision optics and art conservation applications.

Acquisitions are a major part of the story so it is pleasing to see growth opportunities enhanced by its latest, Monmouth Scientific. Strong cash generation (it cleared its £4 million net debt last year) and balance sheet strength underpin this acquisition strategy, with one analyst highlighting the benefit from the company's increasingly diverse catalogue products and end markets.

'With a good order book and good trading in May and June, as laboratories re-open post-pandemic, we leave revenues unchanged implying strong growth of 20%,' FinnCap analysts said of their full year April 2022 forecasts.



SHARES SAYS: ↗

Still a great buy for the long-term. [SF]

COCA-COLA
(KO:NYSE) $57

Gain to date: 17.6%

Original entry point:

Buy at $48.48, 30 July 2020

ALTHOUGH COMPARISONS WITH 2020 were always likely to be fairly easy, Coca-Cola blew away analysts' forecasts with its second quarter performance, posting its best results for some time.

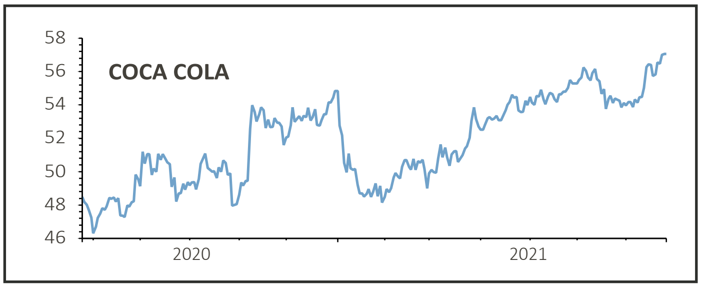
Net revenues grew 42% to $10.1 billion, almost $1 billion above forecasts and only the second $10 billion-plus quarter in its history, while organic growth was 37% against consensus estimates of less than 30% growth as the company increased its market share to above its pre-pandemic level.

Growth was broad based, with the core Coca-Cola brand registering sales up 12% while Sprite and Fanta registered 18% growth. Nutrition, juice, dairy and plant-based sales jumped 25%, while hydration, sports, tea and coffee sales also saw a 25% increase.

Crucially, developed markets experienced growth alongside developing markets, with case volumes in Europe, Middle East and Africa up 21% and North American volumes up 17%. Also, at-home consumption was strong across all markets with North American sales above 2019.

Earnings per share were well above forecasts and free cash flow was more than $5 billion against $2.3 billion last year.

Full year organic revenue growth now seen between 12% and 14% while earnings are seen up between 13% and 15% compared with high single digits previously on both counts.



SHARES SAYS: ↗

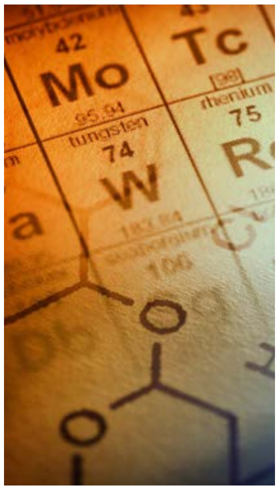
Keep buying. [IC]

CRODA
(CRDA) 338.9P

Gain to date: 30%

Original entry point:

Buy at £63.84, 1 April 2021



OUR CONFIDENCE IN chemicals firm **Croda's (CRDA)** new strategy is already being rewarded in spades with its first half results (27 Jul) revealing strong trading and prompting a material upgrade to full year guidance.

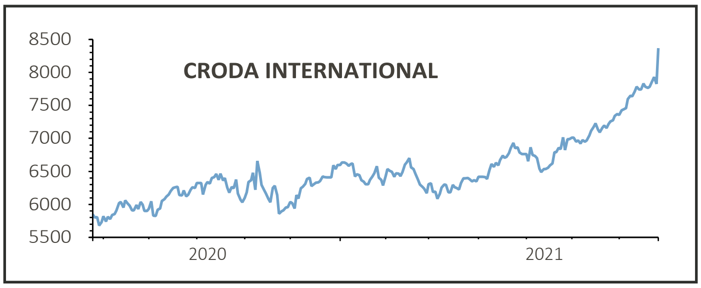
Pre-tax profit increased by 41% to £204.1 million, driven by a 39% jump in sales to £934 million. It has proposed to increase the dividend by 43.5p.

There have been several key factors behind the company's strong showing. The company's existing operations are benefiting from restocking and a rebound in consumer demand as well as spending on innovation.

A series of recent acquisitions are also contributing nicely, in particular lipid-based drug delivery specialist Avanti. Croda now expects to generate $200 million in sales from lipid systems this year up from the $125 million expected in March. This new-found expertise in lipid nanoparticles was a key reason we liked the Croda story.

Flavour and fragrance firm Iberchem has also made a strong contribution after being acquired in November 2020.

Finally the Life Science division has performed well, driven by its Crop Care and Healthcare arms.



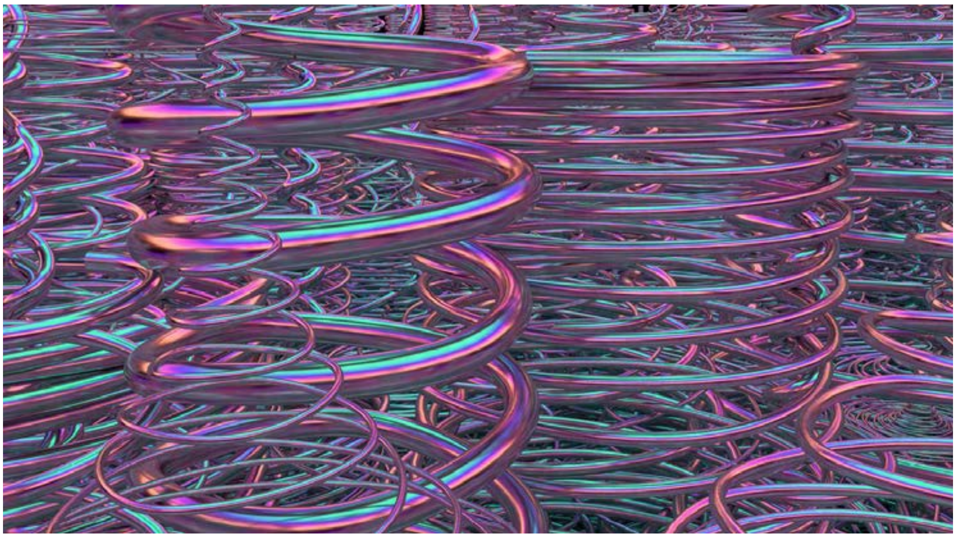
SHARES SAYS: ↗

We remain bullish. Keep buying. [TS]

AberdeenStandard Investments

THE CASE FOR UK EQUITIES

- The UK economy has seen a strong rebound since the lows of the pandemic
- The stock market has also moved forward as market leadership has changed
- Companies are in good shape, with dividends and earnings coming back strongly



The UK is bouncing back. Economic growth is accelerating and the stock market has surged since the start of the year. It is a marked contrast from the pattern of the last few years, when the UK was laid low by Brexit and then by a confused response to the pandemic. Can this economic strength endure and will it translate into continued strong returns for investors?

Sree Kochugovidan, Senior Economist at Aberdeen Standard Investments, says that while the global economy is set for a sharp rebound and above trend growth, there is significant divergence across countries in the timing, speed and strength of that recovery. The UK is emerging as one of the stronger economies, thanks largely to the fast pace of its vaccine programme and swifter reopening schedule.

She says: "At the moment, we expect strong momentum for UK growth as we enter this new phase of reopening. In addition, we've seen that the UK economy has been quite resilient in the recent lockdown, consumers and businesses have reacted well to the latest set of restrictions. Growth numbers haven't been as severely affected. At the same time, the labour market has been well-protected by furlough schemes."

That said, Sree expects to see a rotation in terms of the different sectors and the type of spending. Retail spending has led to date, but there is likely to be a shift from household spending on durable goods towards leisure, services and hospitality as the economy reopens.

This has been seen in stronger UK stock market performance since the start of the year. Partly, this is a result of the dissipation of key risks such as Brexit and Covid. However, it is also because many of the more 'old economy' or 'value' type companies that dominate the UK market had become extremely cheap and the successful vaccines roll-out prompted a reappraisal of those sectors and a rotation in markets.

There has also been a significant improvement in the earnings and dividend outlook for many of these companies. Thomas Moore, manager of Aberdeen Standard Equity Income Trust, says: "We're seeing quite a dramatic increase in earnings and dividends across a range of sectors. This is coming from good strong fundamentals – companies with robust governance are often survivors in their sectors, they are well-run with good long-term drivers. They're coming from a low base in terms of earnings and dividends and we're looking at some quite spectacular increases."

This includes sectors such as mining, where Thomas points to a 90%+ increase in dividends this year. He has seen similar increases in sectors such as industrials, construction, housebuilding, consumer discretionary and the financial sector.

Following this strong performance, can the UK continue to do well? Ken Wotton, manager of the Strategic Equity Capital trust, believes that there are a number of elements in the UK market's favour: "In spite of the outperformance of the last few months, the UK is still trading on a material discount to other developed markets, particularly the US. UK small caps, where we invest, are on multi-year discounts. Those discounts are starting to drive flows back into smaller companies."

He also sees takeover activity driving the market as private equity buyers with deep pockets look for undervalued assets. Strategic Equity Capital is a 20-stock portfolio and has seen three takeover offers in the last three or four months. "Healthcare in particular has seen a number of private equity bids in UK small and mid cap equities. We are seeing elevated deal flow and a hot IPO market."

That said, Ken believes the environment remains difficult to forecast, given heightened uncertainty. This may create volatility, as the trajectory of earnings recovery will be stock and sector specific: "It should be a good environment for stockpickers that are focused on the longer-term."

Georgina Cooper, manager on the Dunedin Income Growth Investment Trust agrees that investors will need to pick with caution. In some cases, the market has got ahead of itself, reflecting increased earnings in the share price before they have been completely realised. Nevertheless, she believes that in many areas there is still scope for upgrades to forecasts: "Management teams have generally been conservative with their expectations because of the continued uncertainty, particularly for operationally levered companies. The UK market still looks cheap and we are more advanced in economic recovery. In our view, the market can keep ticking up and the opportunity to close that valuation gap is still there."

Thomas is encouraged by the significant cash flows building up in UK households, believing they could generate significant economic momentum if they are put to work. Plus, he says, positive trading updates are coming in "thick and fast" from companies. "It's easy, after the last 10 years, to lure yourself into a doomsday view but that is not what we're seeing."

The fear, for both Georgina and Sree, is higher inflation. Georgina says some companies are s tarting to see cost inflation, and Sree says it is a risk she is keeping a close eye on. Nevertheless, she believes the current pressures will be transitory.

Although the UK economy tends to be associated with 'old economy' sectors such as banking, mining or oil and gas, Thomas says it is more dynamic than it appears. Capital tends to flow to new and productive areas of the economy. Increasingly, those structural trends accelerated by the pandemic, such as ecommerce, digital transformation, sustainability or healthcare innovation, are reflected in the UK market. Ken says that there are a host of new businesses coming to market for fund managers to consider.

The UK has seen a good run, but with valuations low, some key risks diminishing and corporate prospects improving, there should be more to come from UK companies. That said, there may be a rotation in stock market leadership and greater volatility. Careful stock picking should help avoid the pitfalls.

DIY BOOM

WHY THERE'S MORE TO COME AND THE STOCKS TO BUY NOW

By **Ian Conway** Senior Reporter

One of the very few positive effects of last year's pandemic was an increase in consumers spending on the repair, maintenance and improvement of their flats and houses.

Having been confined indoors for months at a time, it didn't take long for people to set about redecorating and adding more indoor or outdoor space so they could live and work remotely more comfortably.

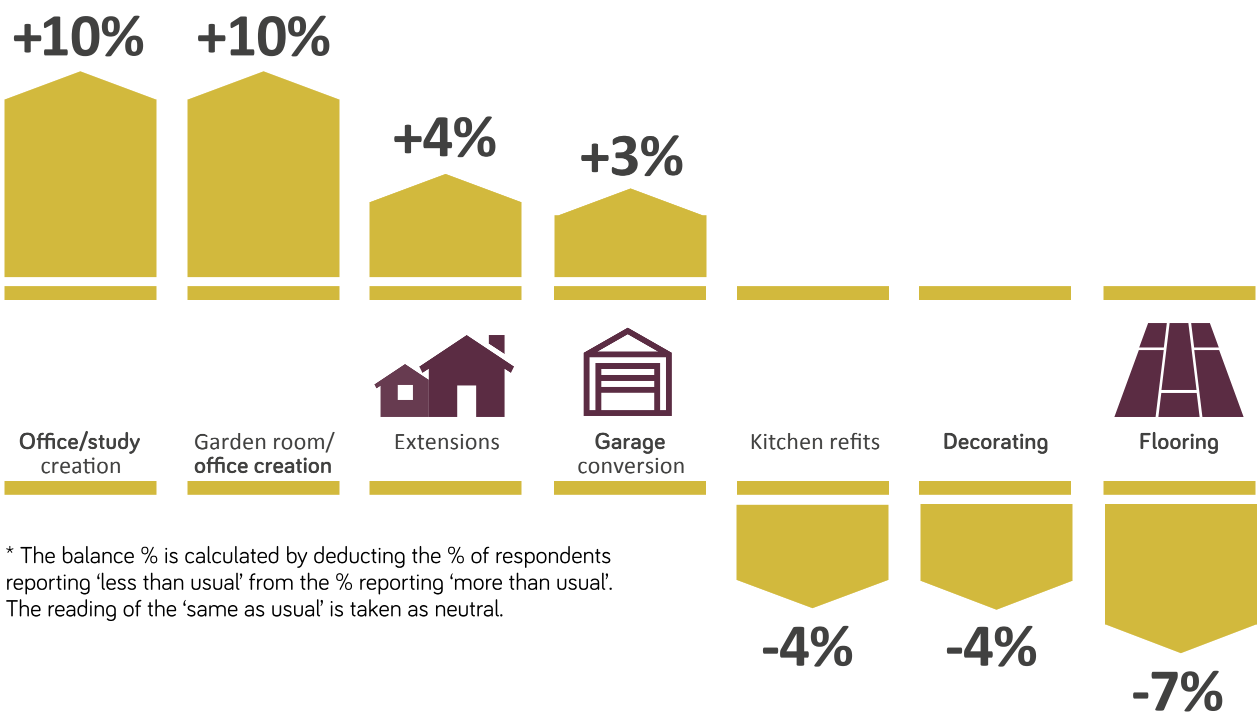
That led to an explosion in projects and building work up and down the country, boosting the fortunes of builders and building materials firms.

On balance we think this trend has further to run. It seems likely that the limits on availability and the rising cost of materials and labour will have delayed renovation projects for many households. And this pent up demand could easily continue to come through for the next 12 months at least. We highlight two exciting ways to play this theme.

A HUGE 'HIDDEN' MARKET

According to **Travis Perkins (TPK)**, the UK's biggest distributor of building materials, the domestic repair, maintenance and

Balance of projects being completed*



* The balance % is calculated by deducting the % of respondents reporting 'less than usual' from the % reporting 'more than usual'. The reading of the 'same as usual' is taken as neutral.

Source: Travis Perkins. February 2021

improvement or RMI market was worth £26.6 billion in revenue last year.

In the firm's most recent survey of tradespeople across the UK, it found that alongside seasonal projects such as fitting new plumbing and heating, homeowners had responded to the 'new normal' with a major upturn in demand for offices, garden rooms, garage conversions and extensions.

This surge in demand was sustained throughout 2020 and has continued well into this year, even while the level of new work overall has slowed.

According to the latest construction output figures from the Office for National Statistics, there was a slight fall in total building work in May compared with April due to poor weather, although output remained above its pre-pandemic February 2020 level.

Total construction output was down 0.8% to £13.96 billion, with new work 3.5% or £320 million below the February 2020 (pre-pandemic level).

However, repair, maintenance and improvement work was 7.5% or £363 million *higher* than the level of February 2020 as demand continues to grow for work on existing private houses.

In value terms, the private housing RMI market rose by 4.7% between March and May compared with the previous three-month period, and by a record 63% on the same period last year when lockdown prevented tradesmen from working indoors on peoples' properties. The value of work in May alone was up 90% on last year.

Also, according to the ONS spending on DIY goods such as hardware, paint and glass has seen no slowdown in sales growth, even in the first two months of this year, whereas non-food sales overall have fallen sharply.

HAS THE MARKET PEAKED?

There is no question that for some people remote working has been a boon, and many of them would rather keep their current lifestyle if given the choice. That is likely to keep demand for home offices and general improvements bubbling along.

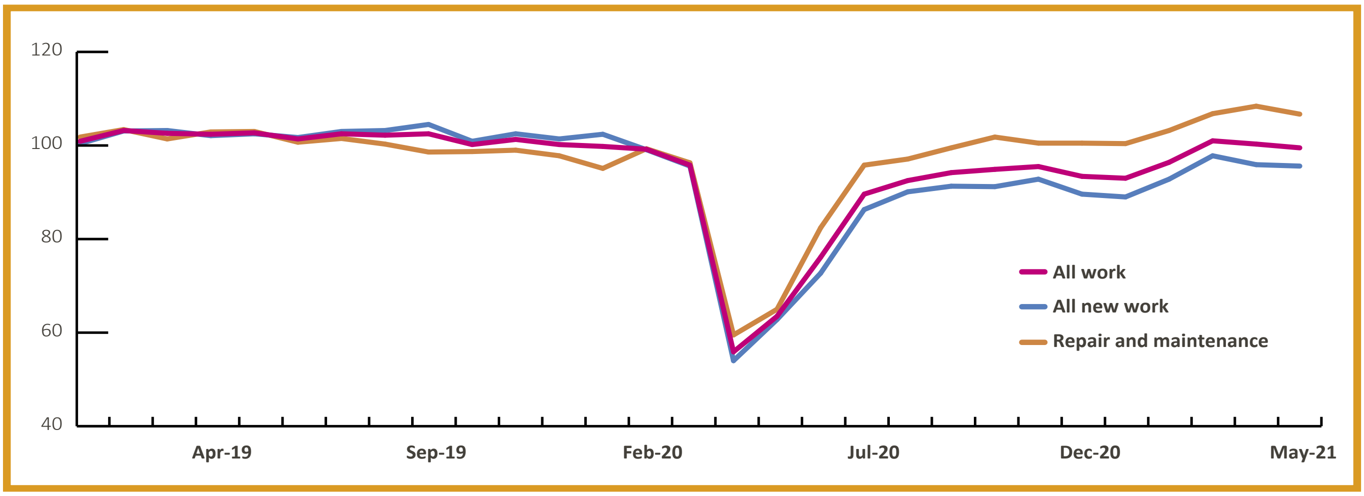
However, with the Government encouraging everyone to return to the office it's certainly possible that some of the steam will come out of the private housing RMI market.

We won't have a clear idea until we see the figures for the third quarter and we hear from the companies involved, both distributors of building materials and the materials companies themselves.

The other big variable is the virus itself. Although some 35 million people have had two jabs, the level of double vaccinations in England is less than 70% in the age 45 to 49 cohort, barely over 30% in the 35 to 39 cohort and just 20% in the 25 to 29 cohort, according to the latest figures from Public Health England.

With the daily infection rate well above 30,000 and a large proportion of younger workers still to receive their second dose, it doesn't take a degree in virology to know that abandoning social distancing and mask wearing and encouraging everyone to return to the office *could* result in another wave of infections and

ONS construction output



Source: Office for National Statistics

the re-introduction of restrictions, exactly what the Government doesn't want.

In that scenario, more people may want to isolate themselves and work from home so the RMI market could get a second wind some time later in the year.

WHAT LOOKS GOOD?

The market hasn't been slow to appreciate the boom in the RMI market, with the share prices of most building materials firms and distributors of building materials up 30% or more already this year and a couple of stocks up more than 50%.

That has encouraged a few new firms to come to market recently. **CMO Group (CMO:AIM)** claims to be the UK's largest online-only seller of construction materials, while **Lords Group (LORD:AIM)** specialises in selling plumbing and heating equipment to the building trade.

There are several stocks which, although they have gained more than the market this year, are still a long way from making new highs and are actually trading on reasonable prospective earnings multiples.

Kingfisher (KGF) is the UK and Ireland's largest DIY retailer for non-tradespeople, turning over £5.7 billion in the year to March across its B&Q and Screwfix formats. While sales last year were up around 12%, gross margins increased by 36% thanks to a higher proportion of full-price sales as consumers piled into its stores and cleared the shelves.

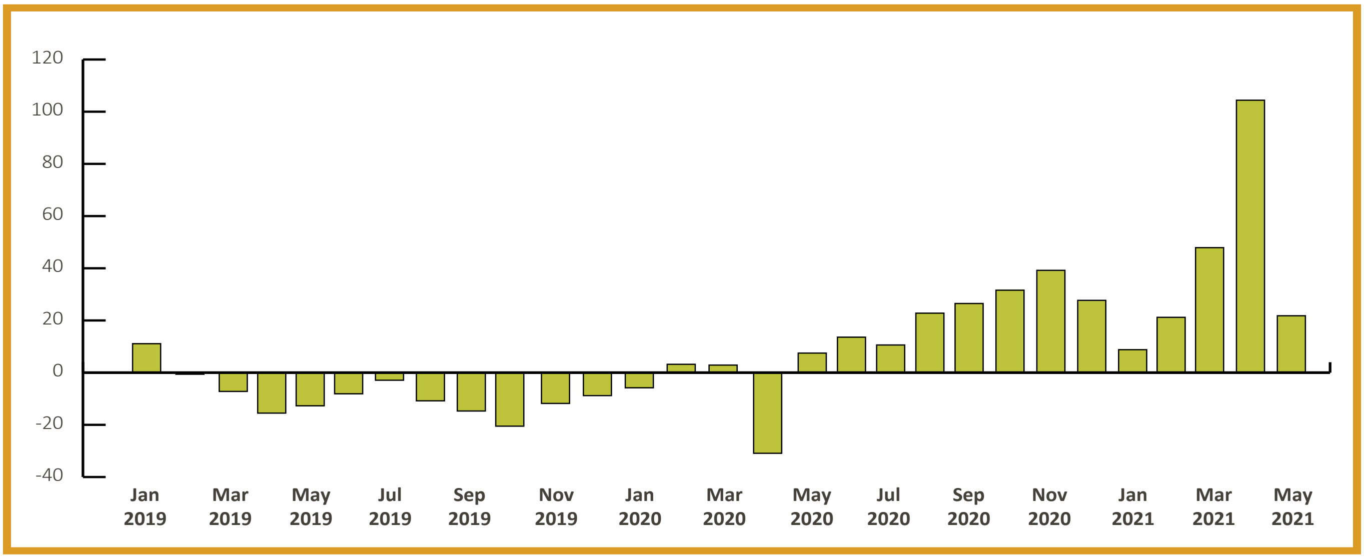
Just under a fifth of B&Q sales, or around £730

Building materials & distributors performance YTD

Stock	Perf YTD	Gross Margin	PE FY1
Alumasc	124.0%	29.7%	10.9x
Breedon Group	25.6%	32.1%	26.3x
Brickability	35.9%	20.1%	13.1x
CRH	16.4%	33.2%	17.7x
Epwin	14.4%	30.0%	17.5x
Forterra	20.5%	23.0%	18.4x
Grafton	33.3%	34.1%	17.1x
Howden	31.5%	60.1%	23.3x
Ibstock	5.5%	15.3%	16.5x
Kingfisher	37.0%	37.0%	11.6x
Marshalls	-1.5%	55.2%	27x
Norcros	50.7%	36.5%	9.6x
SIG	55.4%	25.1%	n/a
SigmaRoc	54.0%	27.5%	18.8x
Topps Tiles	20.5%	58.5%	12.2x
Travis Perkins	44.0%	29.7%	18.5x
Tyman	24.5%	33.5%	14.4x
Victoria	67.2%	35.5%	28.9x
Victorian Plumbing*	0.0%	44.1%	n/a
Wickes*	2.6%	37.8%	11.9x

Source: Sharepad, Shares, data correct as of 23 July 2021
*Note: Victorian Plumbing listed @ 262p, 22 June 2021; Wickes listed @ 250p, 28 April 2021. PE= price to earnings ratio

DIY Equipment sales by value, year on year change



Source: ONS, Shares

million, comes from its trade-focused TradePoint business, with like-for-like sales last year up an encouraging 20%, but the firm admits it has work to do to increase market share by addressing gaps in its ranges, improving its digital offering and generally raising service levels.

The French business, for a long time the weak link in the group, increased sales by 5% on a like-for-like basis to £4.3 billion last year, not that far behind the UK and Ireland, helped by Sunday opening to help meet customer demand. Castorama actually gained market share in the DIY channel for the first time in years.

However, with all these improvements Kingfisher shares haven't just bounced back from their pandemic lows, they have more than trebled to over 350p taking them back to their highs of five years ago. They may look cheap on around 12 times current-year earnings, but we feel the easy gains have probably already been made by now.

Wickes (WIX) has a similar gross margin to Kingfisher, it looks cheap on 11 times this year's earnings, it is a firm favourite with small builders in the RMI market – especially with the introduction of its Trade Pro mobile app – and its shares have gone nowhere since it was spun off from **Travis Perkins (TPK)** at the end of April.

It has also developed a new niche in the DIY market with 'Do It For Me' projects. Its in-store consultants design new kitchen and bathroom installations, customers can get finance from a third-party provider and Wickes has a network of external fitters who actually do the work. Last year it completed more than 14,000 DIFM projects and the firm believes there is large untapped demand going forward.

Specialist retailer **Topps Tiles (TPT)** has an even more impressive gross margin, trades on just 12.9 times current year earnings and has seen 'robust' growth in sales since its stores reopened in April.

The firm is targeting a 20% market share or £1 in every £5 spent on tiles and associated products in the UK by 2025, and has successfully extended its range into outdoor products with decorative wall and floor tiles, playing to homeowners' desire for more attractive outside space.

While it mostly targets the domestic refurbishment market it has a dedicated trade site and is expecting sales in its commercial business to improve as key market sectors begin to recover.

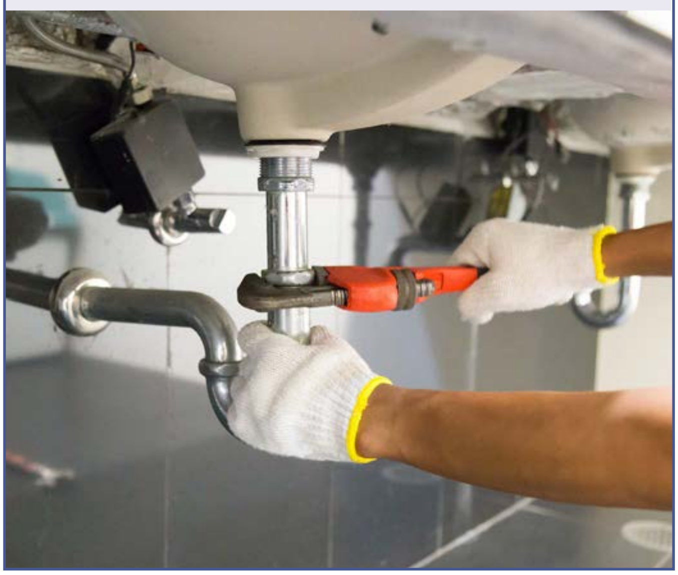
NEW KIDS ON THE BLOCK
What makes recent stock market joiners CMO and Lords different?

CMO (CMO:AIM), which listed just over a month ago, claims to be the UK's biggest online-only seller of building materials. Founded in 2008, the £145 million market cap firm is leaner than other players as it sells solely through a series of websites targeting specific products such as doors, drainage, energy efficiency and insulation.

By not having its own stores or warehouses, CMO claims it can price products more cheaply than traditional builders merchants and get them distributed directly by the manufacturer. Its recent acquisition of fast-growing Total Tiles means it will soon be competing directly against Topps in the online space.

Lords Group (LORD:AIM), which has a £165 million market cap, also floated last month and specializes in the distribution of building, plumbing, heating and DIY goods to both trade buyers and the public.

The firm is highly acquisitive, having amassed six deals between 2016 and 2020 with an average return on investment of more than 20%, and intends to use the £52 million raised in its initial offering to continue growing organically and through further deals.

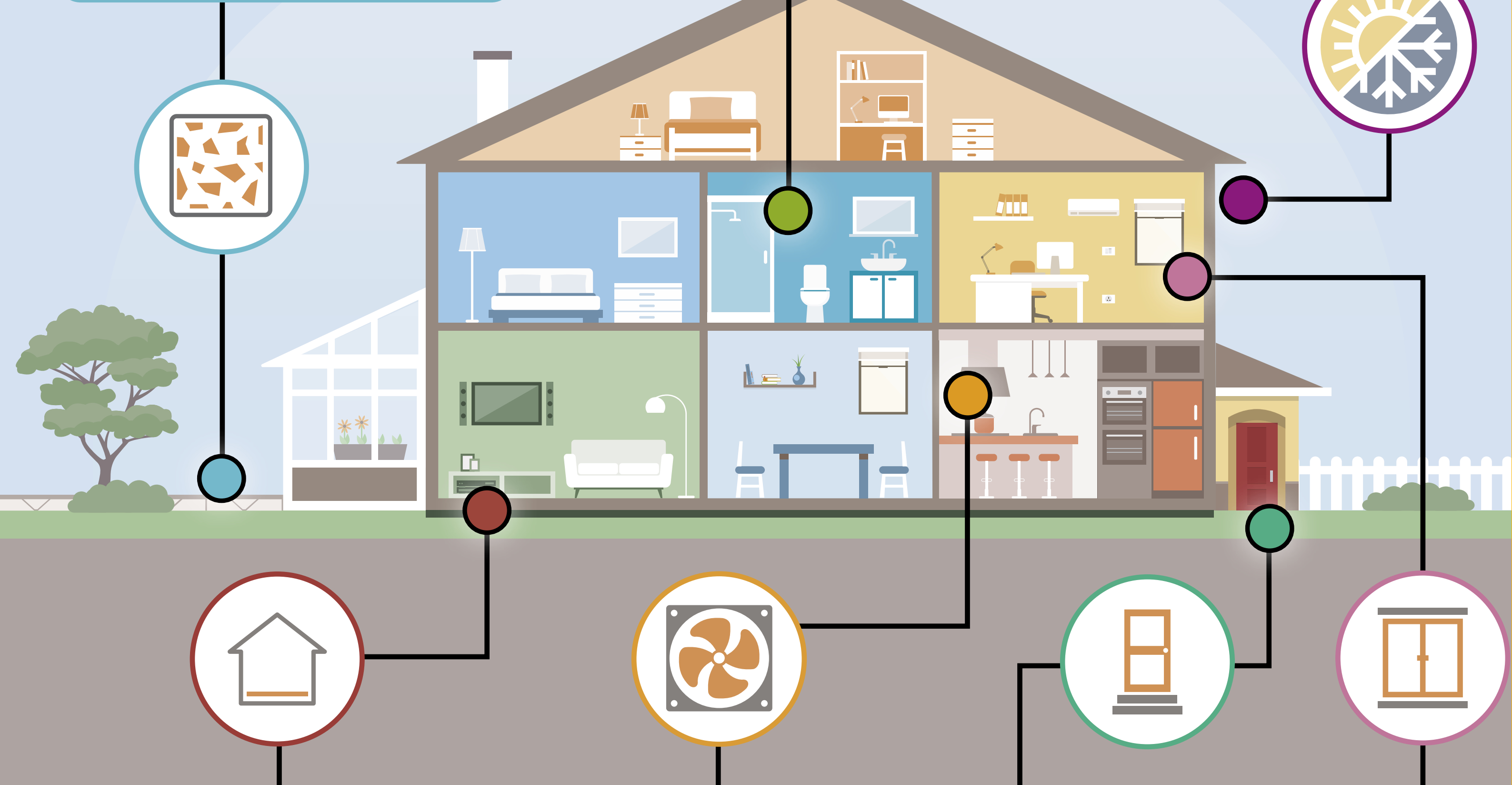


Building materials - Who does what?

NORCROS (NXR)
Bathroom kit | PE: 9.6
Specialises in bathroom fittings and accessories including the leading Triton shower brand. Has broadened its offering with acquisitions. Operates in UK and South Africa.

MARSHALLS (MSLH)
Paving slabs | PE: 27
The paving slab and street furniture specialist has a track record of targeting areas of growth and has strong digital capability, serving a client base which runs from from big governmental and corporate clients down to tradesmen putting in patios and driveways in people's homes.

KINGSPAN (KGP)
Insulation | PE: 35.1
As well as insulation and building envelope solutions for large projects such as the new V&A museum in Dundee, Kingspan also sells domestic insulation products. Its ESG credentials have been hit by accusations over the part played by its K15 insulation in the Grenfell disaster.



JAMES HALSTEAD (JHD:AIM)
Flooring | PE: 31.8
The flooring products firm has a track record of innovation and has delivered strong total returns to shareholders over the long term including a unbroken record of dividend increases running back to the late-1970s.

VOLUTION (FAN)
Extractor fans
PE: 23.4
Has seen a big benefit from increased awareness of the need to improve ventilation in a post-Covid world, product range includes extractor fans for residential use.

EPWIN (EPWN:AIM) | TYMAN (TYMN)
Windows and doors
Epwin PE: 17.5 | Tyman PE: 14.4
Listing on AIM in 2014, Epwin manufactures PVC windows and doors and is a leader in several of its end markets. Tyman makes highly engineered products like hardware for windows and doors, smart entry and monitoring products, as well as seals and extrusions and access solutions for commercial buildings.

Note: PE = forecast price to earnings ratio for current financial year. Source: Sharepad, Refinitiv (for Kingspan). Data as at 23 July 2021

BUILDING PRODUCTS DISTRIBUTION SECTOR BECOMES MORE FOCUSED

The distribution of building products in the UK is becoming a more specialised affair with companies narrowing their focus to excel in certain product areas and markets.

Irish investment bank Davy says: 'Specialist formats – such as Selco, Toolstation, Screwfix and Howdens – have been expanding rapidly and taking share. These specialist formats are typically characterised by features such as accessibility, convenience and service.

'They offer a deep product range and are digitally enabled. For the owners, there is the attraction of high returns, low capital intensity and scalability.'

By Davy's calculations these formats accounted for around 30% of revenue in 2020 which is double the level they were at 10 years ago.

After its recent decision to dispose of its traditional building merchant operations in the UK for £520 million, Davy notes **Grafton (GFTU)** will derive 75% of its UK distribution revenue from Selco.

TWO STOCKS TO BUY

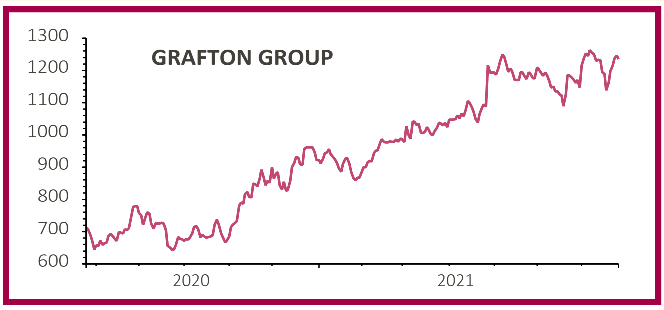
GRAFTON (GFTU) £12.29 BUY

The recent sale of its lower margin builders' merchant businesses in the UK should improve profitability at **Grafton (GFTU)** and, assuming it completes as planned in the first quarter of 2022, will leave the company with a strong balance sheet to pursue acquisitions.

Berenberg forecasts a resulting improvement in its EBITDA (earnings before interest, tax, depreciation and amortisation) margin from 9.1% to 12.6%.

The remaining bits of the business, which includes Selco and the Woodie's DIY, home and garden chain in Ireland, are in excellent shape, thanks in no small part to strong demand from the RMI market, with like-for-like growth across its continuing operations of 17.8% versus 2019.

Berenberg forecasts net cash of £679 million by the end of 2022 and valued on an EV (enterprise value) to EBITDA basis for that same year, to encompass this large cash position, it looks inexpensive on a multiple of 8.9 times.

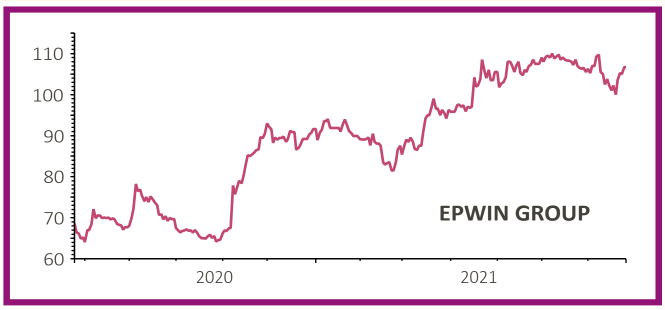


EPWIN (EPWN:AIM) 104.2P BUY

Epwin is a trade-focused manufacturer and supplier of PVC windows, doors and fascias and sells to the new build, social housing and RMI markets through a network of builders merchants and installers.

As well as strong demand from the RMI and new-build sectors, sales are being driven by increasing government regulation on environmental and safety concerns, which require improvements to homes on a larger scale than just routine maintenance.

In its latest trading update the firm posted a 69% increase in sales against the same period last year and said it is managing both supply chain issues and input costs by raising prices to customers, albeit with a delay in most cases. Against this backdrop a price to earnings ratio of 17.5 times looks attractive.



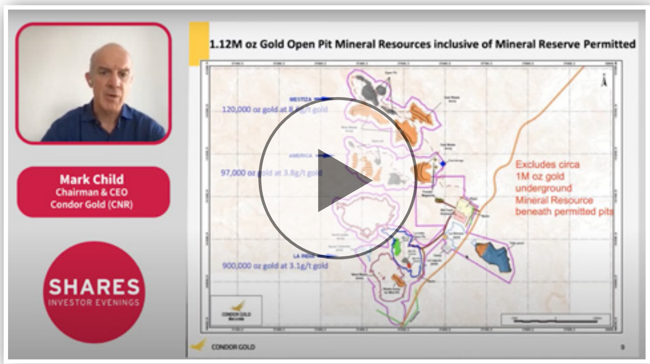
WATCH RECENT PRESENTATION WEBINARS

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

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

Blencowe Resources (BRES)
Mike Ralston, CEO

Blencowe Resources (BRES) is engaged in the natural resource sector, and it is currently developing the substantial Orom-Cross graphite project located in Northern Uganda.



Condor Gold (CNR)
Mark Child, Chairman & CEO

Condor Gold (CNR) is a UK based exploration company focused on proving a large commercial reserve on its 100% owned La India Project in Nicaragua.

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Same-day delivery: the next battleground in the grocery war

App-based services aim to compete with the Big Four supermarkets

As Winston Churchill famously observed while he was working to form the United Nations after the Second World War, 'Never let a good crisis go to waste'.

In a similar vein, UK tech entrepreneurs have made full use of the Covid pandemic and the radical shift in peoples' shopping habits to launch a raft of local on-demand delivery services designed to take on **Ocado (OCDO)** and the supermarkets' own delivery models.

We question how much of threat these start-ups pose to the supermarkets and whether they should go down the same road with their own businesses.

WHAT'S IN A NAME?

Anyone using social media platforms can't fail to have noticed the explosion in adverts for Beelivery, Gorillas, Jiffy, Weezy, Zapp and any number of other whackily-named delivery firms.

Altogether more than a dozen new companies have sprung up across the country offering hyper-local delivery from 'dark stores' in as little as a quarter of an hour.

What's more, unlike the supermarket offerings many of these new services have no minimum spend, a low or no delivery fee, and there is no need to book in advance.

Need nappies urgently, or run out of wine and don't fancy leaving your guests and trudging to the shops? Now there's an app for that.

STATE OF PLAY

The big supermarket groups have already responded with their own on-demand delivery services, some better than others. Ocado offers a 'Zoom' delivery service for any of over 10,000 items but customers have to book a time slot and the minimum spend is £15.

OCADO'S
ZOOM SERVICE
BOOKING REQUIRED,
MINIMUM SPEND £15

As well as same-day delivery for orders placed before 1pm and its same-day Click+Collect service, market leader **Tesco (TSCO)** offers Whoosh, a 'superfast' service promising delivery 'from store to door within 60 minutes'. Customers are charged £5 per delivery and can track the service using the Tesco app.

TESCO'S
WHOOSH SERVICE
£5 PER DELIVERY,
ONLY AVAILABLE IN 20 STORES FOR NOW

For now, Whoosh is only available in 20 stores in and around London and Bristol, and delivery is by electric bike which means there are size and weight restrictions. Blueberries can be had in a jiffy, but six slabs of beer is a no-no.

SAINSBURY'S
CHOP CHOP SERVICE
£4.99 PER DELIVERY
ONLY AVAILABLE IN CENTRAL LONDON

Sainsbury's (SBRY) introduced its on-demand delivery app called Chop Chop last year, enabling customers to order up to 20 items and have them delivered by electric bike within an hour for £4.99, more or less the same as Tesco, although the service is only available in central London.

In both cases, once an order is received a 'shopper' runs around the store grabbing goods off the shelf. If a product isn't in stock the shopper calls the customer to ask if they want a substitute item.

Asda finally launched its on-demand service at the end of June, albeit just for customers with a three-mile range of its Halifax, Rotherham and Poole stores, while bid target **Morrisons (MRW)** has sub-contracted on-demand delivery to **Deliveroo (ROO)**, which promises to supply customers with a range of 70 'essential' items within 30 minutes.

LOSS-MAKING UNICORNS

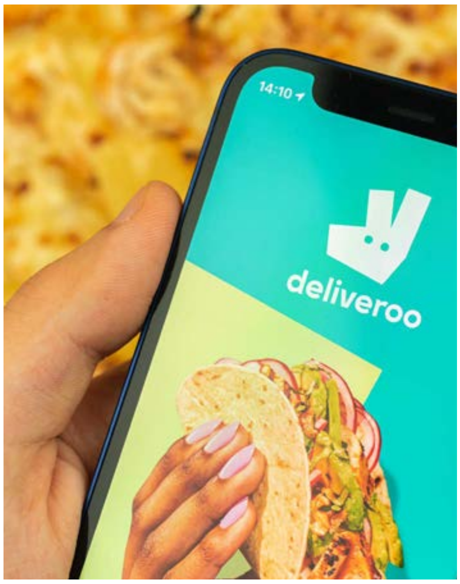
Even though their costs are a fraction of those of the supermarkets, as they operate from back-street 'dark stores', given the big incentives they offer to gain customers and the fact they employ workers, these new delivery businesses are clearly losing money just to create a market for their services.

Yet German firm Gorillas was valued at $1 billion in its last funding round and Turkish-based Getir was valued at $7.5 billion. Presumably their backers are hoping that the firms can reach critical mass and 'unicorn' status in short order so they can monetise their stake through stock market listing or a sale to a special-purpose vehicle.

Whether there is enough demand for these firms in a post-pandemic world is debatable. Furloughed, convenience-hungry Millennials and the 'laziness economy' may have been a fertile breeding ground, but to pose a serious threat to the established grocery chains these newcomers need to succeed with the mainstream.

PHANTOM MENACE

The snappily-named apps may be new, but bike delivery was standard a hundred years



ago and was still 'a thing' in the 1970s. Some readers will no doubt recall the Hovis ad with the young lad pushing his two-wheeler up Gold Hill, in Shaftesbury.

During the pandemic, when people were physically confined to their homes and going to the supermarket meant queuing outside for up to an hour to be let in – another, less rose-tinted, reminder of the 1970s – there was clearly a market for on-demand delivery.

However, with restrictions having been lifted, we can't see the newcomers presenting much of a threat to the big supermarkets.

In a case of 'disruptors' being disrupted, the supermarkets will continue to tweak their offerings to stay competitive.

The operators which may suffer include independent corner shops and the national convenience chain **McColl's (MCLS)**.

Ian Conway, Senior Reporter

This FTSE 100 trust will let you earn alongside Taylor Swift and Lady Gaga

Wall Street billionaire Bill Ackman's trust offers exposure to North America's best businesses and is buying a stake in Universal Music

Despite its status as a FTSE 100 company, investors may still be unfamiliar with **Pershing Square Holdings (PSH)**. Yet the trust provides access to the stock picking acumen of Wall Street hedge fund manager Bill Ackman and this article seeks to remedy any ignorance of the vehicle.

The trust was rewarded with promotion into the blue chip ranks in December 2020 after strong returns drove a meteoric share price rise.

We're surprised that given a track record of returns well in excess of its S&P 500 benchmark, not to mention a five year share price total return of 147%, the best in the Association of Investment Companies' (AIC) Hedge Funds sector, the trust trades at a wide discount to NAV (net asset value), 25.6% at last count.

Billionaire Ackman has been in the headlines lately since his US-listed SPAC, Pershing Square Tontine, pulled out of its proposed acquisition of a minority stake in Vivendi's Universal Music Group (UMG).

Ackman cited issues raised by the US Securities and Exchange Commission (SEC) as the reason this (fiendishly complicated) transaction didn't proceed. Instead, Tontine's Universal Music share purchase agreements will be assigned to the aforementioned trust, which will become a long-term shareholder once Universal Music lists on Euronext Amsterdam in September.

PERSHING SQUARE HOLDINGS
(PSH) £26.05
Market Cap: £5.15 billion

Pershing Square Holdings investing directly into Universal Music side-steps the complexity of the doomed original deal and provides the trust's shareholders with greater exposure to Universal, the music corporation stars including Lady Gaga and Taylor Swift call home.

'None of us anticipated this outcome,' said Ackman in his recent statement (19 July). 'Yet, despite the inability of Pershing Square Tontine to consummate the Universal Music Group transaction, our counterparty was not left at the altar. Pershing Square will be fulfilling Pershing Square Tontine's commitment to Vivendi. Pershing Square intends to be a long-term Universal Music Group shareholder, and will endeavour to work with Universal Music Group management to help create value for all stakeholders.'

PERSHING SQUARE UNDER THE SPOTLIGHT

Pershing Square is an investment trust that makes concentrated

Pershing Square Holdings

TOP 10 HOLDINGS	% OF NET ASSETS	TOTAL RETURN YTD (% IN USD)
Lowe's	20.7%	21.9
Agilent Technologies	15.6%	25.1
Chipotle Mexican Grill	15%	11.5
Restaurant Brands	14%	3.9
Hilton	13.8%	6.6
Howard Hughes	11.7%	11.1
Domino's	8.5%	25.3
Pershing Square Tontine	7.4%	-25.6
Freddie Mac	1.5%	-50.7
Fannie Mae	0.9%	-45.3

Holdings as at 30 June 2021, performance as at 18 July 2021
Source: Numis, Company, Bloomberg

investments in large cap North American companies with the goal of preserving capital and generating superior long-term absolute returns.

Actively managed by Ackman's Pershing Square Capital Management, this is a portfolio of 'long' investments in high-quality companies with wide economic 'moats' that generate predictable, recurring cash flow with limited downside and have higher earnings growth than the S&P 500, although the trust will occasionally go short and take bets a share price will fall.

Ackman puts money to work in companies with 'formidable barriers to entry and a compelling value proposition' and which usually boast opportunities for improvement; common traits are high returns on capital, long-term growth trajectories, and unique and irreplaceable brands or other assets. And there is heavy emphasis on firms with strong balance sheets and exceptional management teams. As an activist, Pershing often works directly with company management to unlock value.

Investors should be aware that the portfolio is super-concentrated, running between eight to 12 core positions and with Ackman typically generating one to three new ideas per year.

Pershing Square's unwavering focus on the best businesses Ackman can find has served shareholders exceptionally well during the pandemic. As he explained in Pershing Square Holdings' annual report, 2020 proved an excellent year for the portfolio's companies.

'The well capitalized (capitalised), high-quality, durable growth companies that represent nearly all of our holdings comfortably weathered the Covid-19 storm. Each has executed initiatives that have and will likely lead to greater market share, improved long-term profitability, and the acceleration of shareholder value creation.'

Pershing Square's priority is always to protect its investors, including pension funds and private investors, from losing money, and last year, canny investor Ackman made $2.6 billion on a bet designed to protect Pershing Square from falling stock markets triggered by the pandemic.

PHILOSOPHY AND PROCESS

In the annual report, Ackman also provided some insights into his philosophy and process. 'We have always believed that the common stocks of even the best businesses can trade at almost any price for brief periods.

'And it is this volatility - often driven by a disappointing short-term event, missed expectations, macro factors, political events, shareholder frustration with management and/or governance, that has enabled us to acquire large minority stakes in great businesses at bargain prices,' he explained.

'In light of the nature of our strategy, and our long-term track record for effectuating corporate change, we have often been able to obtain influence over our portfolio holdings that is similar to that of a control shareholder, but without the need to pay a control premium.

'This aspect of our strategy has given us the best of both worlds, that is, the ability to own great businesses as an important and influential shareholder, and the occasional opportunity to purchase them at bargain prices in the stock market.'

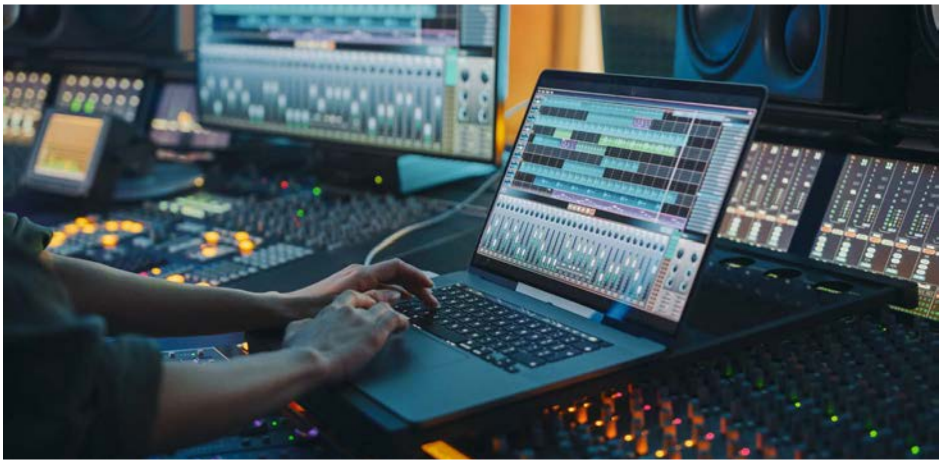
PASSING MUSTER WITH THE MASTER

At of 30 June 2021, Pershing Square Holdings had 10 long positions and zero short positions. The biggest positions included US home improvement Lowe's.

Agilent Technologies, an analytical measurement and testing company Ackman believes has strong future growth potential and a significant margin expansion opportunity, not to mention fast casual restaurant star Chipotle Mexican Grill and Restaurant Brands, which generates royalties from the Burger King, Tim Hortons and Popeyes brands.

Other top 10 holdings included hotels giant Hilton, real estate developer Howard Hughes Corp, Domino's Pizza and the Tontine SPAC.

Pershing Square Holdings has traded at a persistently wide NAV discount in recent years, which



the board has sought to address by obtaining a premium listing on the London Stock Exchange, buying back shares and initiating a quarterly dividend, while Ackman and other 'affiliates' of the Investment Manager have also increased their personal stakes via open market purchases in recent years.

Shares believes this discount could narrow as awareness of the trust builds and investors grow ever more enthused by the deal to buy up to 10% of Universal Music through the listed hedge fund.

As things stand, UK investment trust investors can play the music boom through royalties trusts **Hipgnosis Songs Fund (SONG)** and rival **Round Hill Music Royalty (RMH)**. Once Pershing Square purchases the stake in Universal, one of the world's big three record companies alongside Sony Music and Warner Music, investors will have a vehicle with which to tap into the music streaming boom.

Jefferies believes that fundamentally, the price Pershing Square is paying for Universal Music is attractive because, after it lists on Euronext Amsterdam, the music corporation 'should trade at a significant premium to its listed peer Warner Music Group. Why? Because UMG has greater scale, a better growth profile, wider margins, a superior roster of artists, best in class management and better corporate governance.

'Pershing Square is buying the UMG stake at an implied equity value of €33 billion but if you factor in the considerations above the fair value for UMG could be in the region of €46 billion. That's circa 39% higher than the price being paid for the equity.'

Elsewhere, Numis Securities pointed out that Universal Music will 'clearly be a large position' for the trust. 'At 30 June the listed fund had $1.4 billion of cash, and therefore should be able to reach the 5% holding relatively comfortably, however it will be interesting to see whether the manager trims exposure to other holdings or potentially looks to raise further debt to fund the acquisition,' said the brokerage.

James Crux,
Funds & Investment Trusts Editor

Discover how Xaar is overcoming its troubled past

Inkjet technology group could be poised for a rapid rebound in profit

Get ready for inkjet print head designer **Xaar (XAR)** to deliver a sharp recovery in earnings.

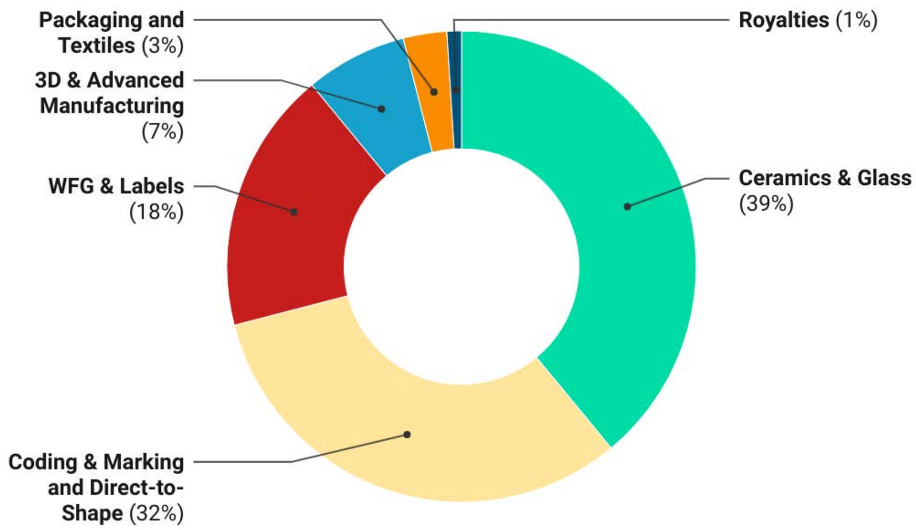
The appointment of a new management team with deep industry experience is successfully reinvigorating the group's business model.

The group is benefiting from a strong product pipeline, coupled with a plethora of new innovative offerings that have been well received by customers.

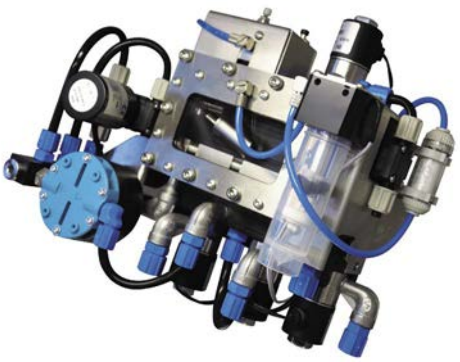
Management has facilitated this by moving the significant historic investment in intellectual property from the development stage to commercialisation.

And there is scope for Xaar to reach breakeven on an EBITDA (earnings before interest, tax, depreciation and amortisation) basis earlier than the anticipated breakthrough in 2022 following the recent acquisition of FFEI, a leading integrator and manufacturer of industrial inkjet systems.

2020 Revenue split by end market



Source: Investec • Created with Datawrapper



As the last independent provider of print heads in the market Xaar is a potential bid target, another reason to be constructive on the outlook for the share price. Large integrated systems manufacturers have acquired all of the other providers and the company looks relatively inexpensive on an 2024 price to earnings ratio of 12.9 times, based on Investec forecasts.

A CHEQUERED PAST

Anyone who has previously invested in digital inkjet printing technology company Xaar is likely to have a distinct aversion to revisiting the company as an investment opportunity. The group suffered due to over investment in research and development and production capacity. In mid-2018 management announced that sales in their key ceramic tiles printing market were declining more sharply than anticipated.

Shortly afterwards the dividend was suspended and management revealed that the group had effectively run out of cash to finance the development of their 'Thin Film' technology. This was a major disappointment as the group's 2020 revenue target of £220 million was predicated on sales deriving from the application of this proprietary technology.

The group's share price fell from 489p in in October 2017 to 20p in early March 2020, a decline of 95%. However the future outlook for Xaar is much more promising.

ORIGIN STORY

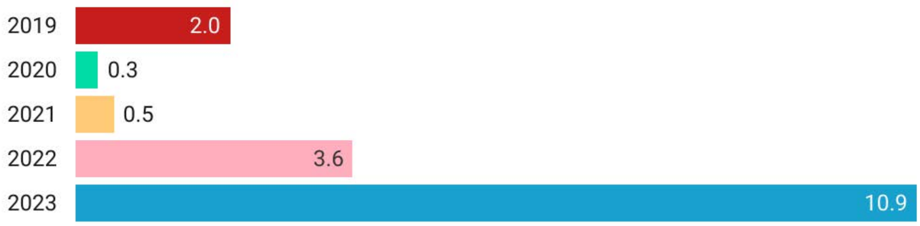
Xaar was originally formed as a spin out from Cambridge University, and is a leading designer and producer of inkjet print heads. Inkjet is displacing traditional pad and screen-printing in a disparate range of industrial end markets.

This has created a significant opportunity for the group to increase sales and recent research by Investec analysts' Thomas Rands and Ben Bourne has highlighted the key features that differentiate Xaar's print technology from its peer group.

The group's unique print-head architecture enables jetting of ultra high viscosity fluids in multiple positions including curved surfaces. A practical example of this technology is the personalisation of golf balls. Xaar's technology is also able to create a drop which is more than five times the size of a native drop, without any reduction in the number of drops produced per second.

Ink recirculation enhances print reliability, machine uptime, as well as reducing ink waste. The last point is significant because Xaar's print technology also offers an environmental benefit as it allows customers to directly jet print more precisely on their products thereby using less ink, solvents and energy.

Earnings forecast to recover at Xaar (£ millions)



Source: Investec • Created with Datawrapper

Investec comments: 'We see exciting new potential applications for Xaar printheads in spray painting robots and enhanced building materials. We look forward to hearing further details, potentially later in 2021.'

IMPORTANT ACQUISITION

In July 2021 Xaar acquired FFEI limited, a leading integrator and manufacturer of industrial digital inkjet systems and digital life science technology, in a deal worth up to £9 million.

Commenting on the acquisition Xaar's CEO John Mills said: 'Having restructured and stabilised our core print-head business, the acquisition of FFEI will accelerate our strategy and expand our customer offering in a range of markets. As well as providing a number of ready-made solutions, the acquisition will further enhance Xaar's world class expertise.'

According to house broker Investec the increased electrics and software capacity will enable Xaar to undertake a larger number of customer projects.

And FFEI's product expertise in print bar manufacturing will fill a void in Xaar's product portfolio, saving time and money. From a strategic perspective the acquisition offers Xaar's clients a more complete solution and will improve both their development timescales and their time to market. From an earnings perspective Investec believe that the acquisition has increased the likelihood that

EBITDA breakeven will 'occur sooner than forecast'.

Recent trading has been solid, with an in-line update for the six months ended 30 June 2021 (22 Jul).

Revenue for the period is expected to be approximately £26 million, an increase of 11% and 8% relative to H1 and H2 2020 respectively. The company added that the 'short-term outlook remains positive with a healthy order book across the business'.

The prospects for Xaar's key core end markets – Ceramics and Glass and Coding and Marking and Direct to Shape, which together account for approximately 70% of group revenue, are improving.

In Ceramics, with Chinese business a key driver for the group historically, Xaar has succeeded in winning back previous customers, and in Glass it has developed a robust market position across a diverse array of applications.

New marketing initiatives have contributed to the strong performance within the group's Direct to Shape division, and the Coding and Market Division has reaped the benefits from sustaining its strong market position.

Given the marked increase in demand, there may be concerns regarding the group's ability to increase capacity. However Ed Wielechowski, fund manager at **Odyssean (OIT)**, a major shareholder in Xaar, has highlighted that the group has a large well invested manufacturing capacity, 'management has said that they can probably double revenues from current levels of approximately £50 million to £100 million with as little as £2 million in additional capex (capital expenditure) ,' he says.

Another recent announcement outlining a partnership with the Beijing National Innovation Institute of Lightweight is an encouraging move that highlights the opportunity for new applications in digital inkjet. These include printing glass, electronics, 3D and automotive spray painting.

A FRESH START

Xaar's new management team are overcoming the group's troubled past. Over recent years Xaar has invested more than £70 million in its Thin Film development programme.

Critically this historic intellectual property is now being moved from the development to commercialisation stage, suggesting this spending is finally coming to fruition after the earlier frustrations.

In an era characterised by overseas private equity firms increasingly scouring the UK equity market for takeover targets, it is worth remembering that Xaar is the only independent inkjet technology company with more than 30 years of experience. The group's key institutional shareholders include Schroders, Invesco and Fidelity.

By **Mark Gardner**
Senior Reporter

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FULHAM SHORE
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Lifetime ISA savers could face a life-long cash drag

Why investing in the markets through the tax efficient vehicle is likely to deliver better returns

The Lifetime ISA has proved to be a bit of a hit with savers and investors, confounding the many sceptics who disparaged the account when it was first launched. Latest figures from HMRC show that 545,000 people subscribed to a Lifetime ISA in the 2019/20 tax year, up from 223,000 in the previous year.

But a recent survey conducted by AJ Bell suggests that some savers aren't allocating their money as effectively as possible.

WHAT IS THE LIFETIME ISA?

The Lifetime ISA was introduced in 2017, with the dual aim of helping younger people save for a house deposit, and to also encourage retirement saving. Anyone between the ages of 18 and 40 can open a Lifetime ISA, and once open, you can continue to top up the account until your 50th birthday.

As with a standard ISA, gains and income are free from tax, but the extra sweetener is the government adds tax relief to boost each £100 you put in by a further £25. So if you put in the maximum £4,000 allowed each tax year, the government will add £1,000 to your Lifetime ISA pot. The only price for this largesse from the Treasury is that you can only withdraw funds to buy your first house, or from your 60th birthday onwards. Other withdrawals attract a penalty which recoups the tax relief, and a bit extra to boot.

THE INFLATION THREAT TO CASH

The AJ Bell survey found that 45% of Lifetime ISA holders were using the account to save for a house deposit, while 33% were saving for retirement. But of those saving for retirement, 60% said they had opted for a Cash Lifetime ISA.

This is pretty astonishing, because Lifetime ISA savers are in their 20s, 30s and early 40s. Indeed the average age of our survey respondents was 36. While using a Cash Lifetime ISA to save for a house deposit makes some sense, as you may need the money back in relatively short order, those saving for retirement are decades away from drawing on their money.

Holding cash over such a long period opens them up to the threat of inflation eating away at their savings, while also missing out on the longer term returns expected from stock market investment.

A SMALLER POT?

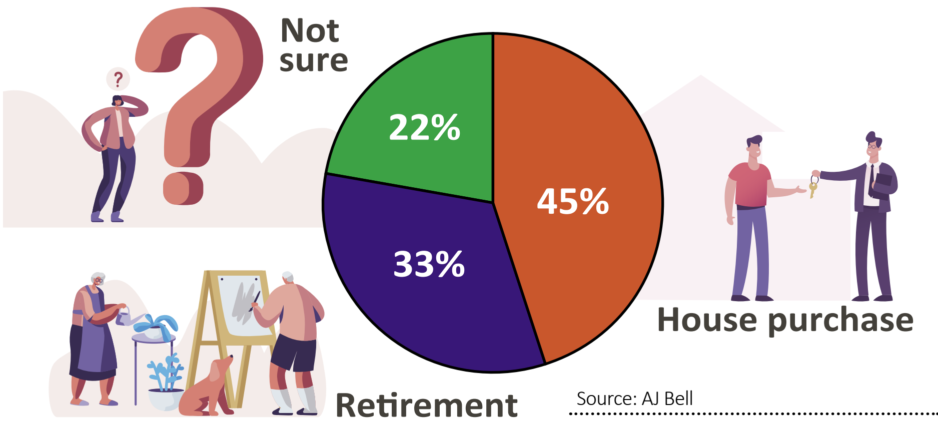
The Lifetime ISA is actually a pretty good way for basic rate taxpayers to save for retirement, but those who opt for cash will likely end up with much smaller pots than those who invest in shares.

Clearly we don't know precisely what returns are going to look like over the next

20 or 30 years, but the Barclays Equity Gilt Study shows that since 1899, UK shares have returned 5% above inflation, and cash just 0.7% above inflation. Based on these figures, a 30 year old paying the maximum £4,000 in each year (plus £1,000 tax relief) until age 50, would have a pot worth £174,706 at age 60 if held in cash, or a pot worth £404,874 if invested in stocks (assuming 2% inflation and 0.3% in annual investment charges for an index tracker fund).

Worse still, cash rates are currently much lower than historical averages. The same Barclays Equity Gilt study shows that if we look over the last 10 years, UK shares have returned 4.9% above inflation, and cash has returned 2.5% below inflation, so the latter has lost a significant chunk of its buying power. Right now, inflation is on the rise, but cash rates don't look like they're going anywhere. So it's a particularly inauspicious time to be holding cash for long term savings purposes.

What are you using a Lifetime ISA to save for?



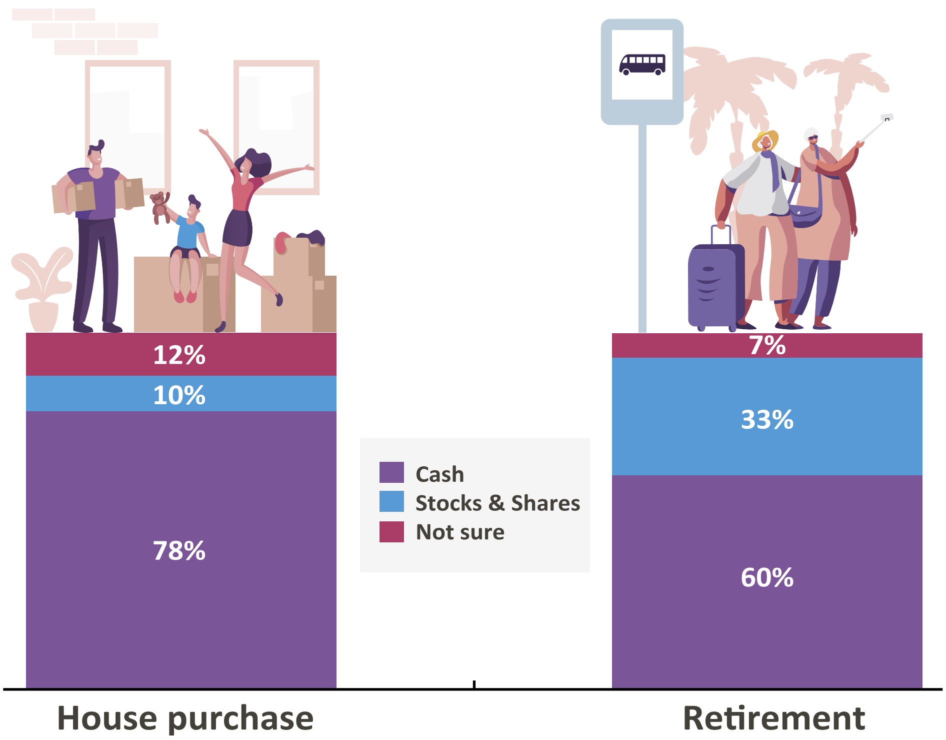
Source: AJ Bell

RELUCTANCE TO MOVE BEYOND CASH

Broadly speaking, lots of consumers do seem unwilling to move out of cash, even for long term savings. Indeed this prompted the FCA (Financial Conduct Authority) to conclude, in a report issued last December, that many consumers are missing out on making their money work better for them in the long term by holding cash rather than investing.

One of the outcomes of the FCA's business plan for the next year is actually to see fewer people with an appetite for risk holding high levels of cash, because it's potentially damaging to their ultimate wealth. Lifetime ISA holders who are saving for retirement have taken a big step in the right direction. But those who have so far plumped for cash should give serious thought to switching across into stocks. Their future selves will probably thank them heartily.

What kind of ISA do you have?



Source: AJ Bell

DISCLAIMER: Financial services company AJ Bell owns Shares magazine. Tom Sieber who edited this article owns shares in AJ Bell.

By **Laith Khalaf**
AJ Bell
Financial Analyst

How Taiwan Semiconductor became the most valuable emerging markets company

Technology could play a key role as the developing world emerges from the pandemic

The importance of emerging markets to the global technology sector has been brought home by the current chip shortages affecting the manufacture of everything from smartphones to white goods and road vehicles.

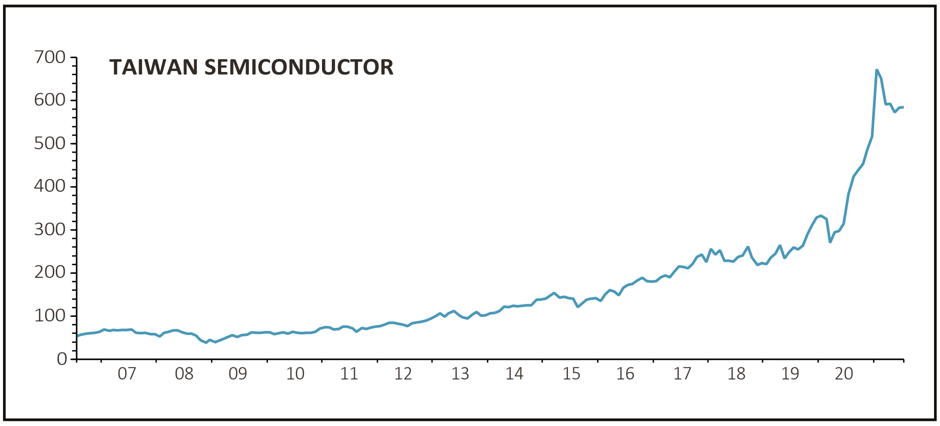
Semiconductor foundry Taiwan Semiconductor Manufacturing or TSMC for short is one of the most important players in this global supply chain and it is now the largest company in the MSCI Emerging Markets index – overtaking China's e-commerce giants which have been affected by recent moves by the Chinese authorities.

TSMC is the world's largest dedicated semiconductor foundry or fabrication plant – a highly complex facility which requires lots of expensive devices to function with the company upping its fabrication spend from $28 billion to $30 billion in 2021 and planning to invest $100 billion over the next three years.

Overall technology is comfortably the largest sector in the MSCI Emerging Markets Index, accounting for more than 20% of its value.

Technology is likely to play a key role in the recovery of the developing world from the pandemic with the International Monetary Fund noting in a recent publication that: 'Some countries are seizing opportunities: in Asia, digitalization is transforming the efficiency of production, communication, and the inclusiveness of government operations.'

And a 2020 paper from the OECD noted that 'technological developments are likely to bring many new opportunities, which may be even larger in emerging economies and may allow them to "leapfrog" certain stages of development'.



Emerging markets: Views from the experts

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

1. **Inflation** concerns in the United States have reemerged as a stimulus-fueled global economy springs back from the depths of the pandemic. The recent shift in the US Federal Reserve's (Fed's) tone on inflation reflects the solid demand backdrop that we have observed. Our view is that inflationary pressures will be relatively short-lived. Conversely, experience suggests that the Fed's messaging around tapering and preparations for such a move are likely to create more market volatility than the actual reduction of bond purchases. The real risk will be abrupt liquidity withdrawal on expectations of rate rises and the end of unprecedented stimulus, which could bring about more market caution.

2. Across major EMs, technology's role as a key economic engine has only strengthened during the pandemic. As technology has advanced, semiconductor chips have become a growing part of almost all consumer goods with the **semiconductor industry** experiencing a cyclical and secular boom. Historically, many chip designers outsourced the manufacturing to key Asian companies with specialized manufacturing prowess and lower costs. Some of these manufacturers are now counted among the largest foundries globally and can partner with and produce chips for clients globally. This collaboration—rather than direct competition—is a key advantage of their business model. Over time their advantage has shifted from primarily cost to intellectual property, with fewer competitors able to progress to the next level of technology.

3. Despite recent investor attention on heightened regulatory challenges on China's technology companies, operations on the ground continue to expand with China known for having the highest e-commerce penetration rate in the world. Beyond traditional models, the emergence of 'community group buying', where a group leader—who typically has about 100-500 people in a chat group—promotes a selection of products that are sourced directly from farmers, distributors and brands to the group via a mini-app. The bulk order is delivered to the community group leader, who unpacks it for customers to collect. For each community member, buying in larger quantities ensures a lower cost. For e-commerce companies, it solves problems such as high logistics costs and spoilage in grocery; something that other delivery models could not address efficiently. Although the community group buying model is still at an early stage and continues to evolve, we believe it will gain relevance in **China's e-commerce market**. Its ability to address lower-income consumers and logistics challenges faced in developing markets makes it highly applicable to other EMs such as Indonesia, India and Brazil.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

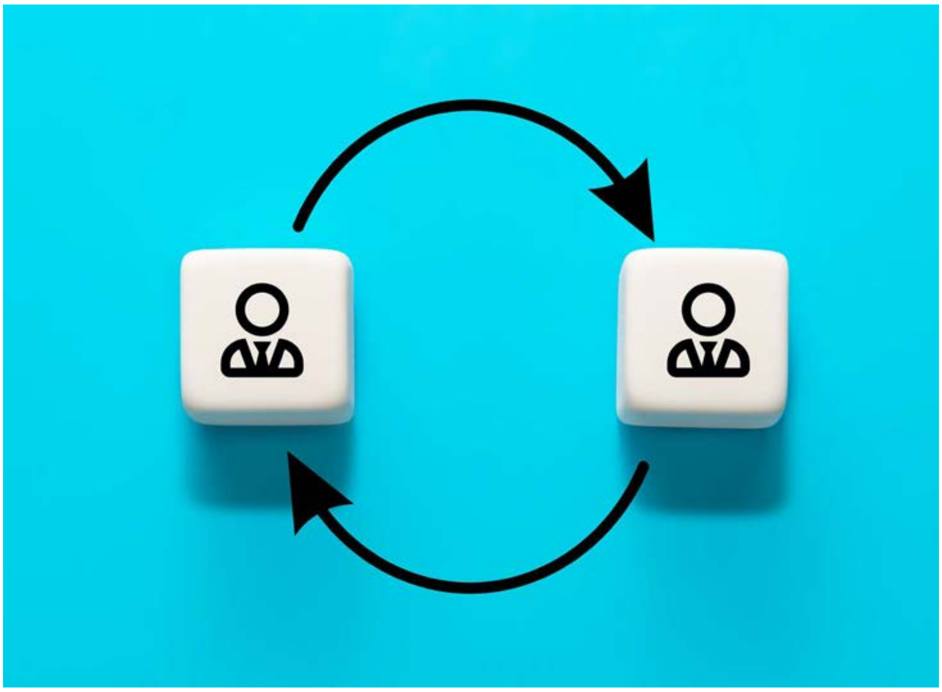
TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.

HOW I INVEST:
A career switch prompts an investments rethink

Andy went from contracting to a permanent role and is now taking more control over his money

Embarking on the journey towards taking greater control over your own investments can be a daunting prospect, but sometimes life changing events can be the catalyst.

Around four years ago Andy decided to take a permanent job after many years of contracting and was very pleased with the new role and the opportunities it presented as he moved towards his retirement.



TAKING CONTROL

However, one drawback was that it brought in less cash every month so that got Andy thinking if he could make a difference by taking charge of his own finances.

This process led him to consider his long-term plans. Inspired by a work colleague and friend who had consolidated his own pension pots Andy opened an ISA (individual savings account) and SIPP (self-invested personal pension).

He then set about consolidating two executive pensions related to his contracting company and a defined benefit pension, assisted by an IFA (independent financial advisor).

Deciding whether to consolidate pension pots is a complicated decision, especially those involving defined benefit plans, so Andy did the right thing to consult an investment professional.

After much thought Andy decided not to pay an IFA to advise him on where and how to invest the money, but instead took the decision to teach himself the basics of investing.

Andy went about the task in a methodical way, saying, 'I decided to teach myself as much as possible using YouTube, investing blog posts, and *Shares* magazine.'

'I learnt about the pros and cons of stocks verses funds/investment trusts, compound interest, comparing growth charts relatively and the basics of company finances.'

FOLLOWING THE GREATS

Before starting out on the process Andy didn't know anything about how a company made money but taught himself enough so that he could identify if a company was profitable or not.

Andy reasoned that to give himself the best chance of success, he should study the best investors and that led him to famed investor Warren Buffett.

Taking a leaf out Buffett's play book Andy has adopted a long-term 'buy and hold' investment strategy with an investment horizon of five years or more and he tries to learn as much as he can about a company before investing.

Speaking like a true Buffett disciple, Andy says: 'If you don't understand it, don't put your money there.'

DOING THE RESEARCH

Andy gathers information about a company from its investor relations website to 'get a feel about a business' and uses Google Finance to compare companies relatively which he says is a great asset.

Researching an investment idea, whether an investment trust or a stock is a 'real thrill' said Andy, especially when it turns out well. Successful investments he has made include Baillie Gifford's **Scottish Mortgage Trust (SMT)**.

When asked about his worst performing investment Andy pointed to robotic software firm **Blue Prism (PRSM:AIM)** although he said he was able to sell the bulk of his holding before it crashed down to £8.

The least favourable aspect of investing for Andy is 'that sinking feeling when the markets panic over something or nothing and you know that your investments are heading south for a spell'.

Andy suspects that sometimes share price falls are manufactured or 'helped-along' by the big players to create a buying opportunity for themselves as 'things always seem to recover'.

Now that Andy has managed his own investments for a while, he is more circumspect of investment firms touting their fund management services.

When one well known investment firm approached him recently to manage part of his savings he had a chance to compare the firm's flagship fund holdings to his own and soon realised 'what the score was' and passed on the opportunity.

A BLENDED APPROACH

Andy's portfolio is a blend of investment trusts, exchange traded funds and hand-picked individual stocks. He said that although he now feels 'sure-footed' about investing he is not totally confident to go down the all-stock route.

There are always new things to learn in investing and Andy said he would like to develop the necessary skills to spot the next Amazon or Microsoft, and potentially earn 100 times on his investment.

Ultimately Andy wants to grow his investment portfolio into a big enough pot so that he can live off the annual growth and dividend income without eroding the capital base, giving him something to pass onto his children.

Achieving that goal will depend on Andy's personal financial circumstances at retirement, his lifestyle, and the amount of income he requires in relation to the size of his pension pot. Andy is a homeowner.

Outside of investing Andy leads an active lifestyle, spending as much time as possible outside, running in the park with the dog, riding around the countryside on his bike and swimming in open water.

Part of the reason says Andy is that 'at the back of my mind I'm thinking it's important to stay in shape if you want to enjoy the fruits of your investing in a long and healthy retirement which isn't too far off for me now'.

By **Martin Gamble**
Senior Reporter

WOULD YOU LIKE TO FEATURE AS A CASE STUDY IN SHARES?

We are looking for individuals or couples who can discuss their experience with investing and some details about their portfolios.

Anyone interested should email editorial@sharesmagazine.co.uk **with 'case study' in the subject line.**

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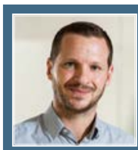
Could natural yield be a retirement income solution?

Our resident expert on why this approach won't be for everyone

I've been inspired by the book 'Your Retirement Salary' by Richard Dyson and Richard Evans, and the method of accessing a pension via just its natural yield. WHowever, I'm not clear as to how this would actually work using either drawdown or UFPLS. Could you shed some light please? **Steve**



Tom Selby
AJ Bell Senior Analyst says:

Before answering your question there are three bits of jargon which need explaining.

Firstly, 'drawdown' is simply a way of taking a retirement income while keeping your pension invested. When you enter drawdown, a quarter of your fund can be accessed as a tax-free lump sum, with the rest taxed in the same way as income.

Secondly, 'UFPLS' stands for 'Uncrystallised Funds Pension Lump Sum' (a catchy term coined by the Government). Going down this route means you take ad-hoc lump sums directly from your pension, with a quarter of each lump sum tax-free and the remaining 75% taxed in the same way as income.

Finally, 'natural yield' is a retirement withdrawal strategy designed to keep your underlying investments intact.

Rather than selling investments to generate a retirement income, someone who takes a natural yield approach would use income their investments pay out – via interest on bonds and dividends from stocks – to fund their lifestyle.

Where someone invests in income-producing funds rather than individual bonds and stocks, these will usually target a yield (say, for example, 4%).

Whether you're taking an income in drawdown or via UFPLS, a true natural yield strategy would mean only ever taking withdrawals from the income your investments produce.

In the case of dividends, for example, these will usually be paid into a cash account which you can then access (provided you are over age 55). Remember that dividends are tax-free when paid within a SIPP, although withdrawals are taxable (after your 25% tax-free cash has been taken).

The main advantage of a natural yield strategy is that it preserves your underlying capital. This means that your pension can potentially continue growing over the long-term and eliminates the risk of selling investments during falling markets.

Natural yield can be particularly attractive for people who want to leave their retirement pot to loved ones after they die.

Pensions now benefit from generous tax treatment on death, with those who die before age 75 able to pass on their fund tax-free, while those who die after 75 can pass it on at their recipient's marginal rate of income tax when they come to access it.

However, the big disadvantage of natural yield is that you'll be reliant on your investments delivering sufficient income for you to live on.

In years where dividends are thin on the ground – something we saw in 2020 as lockdown forced companies to protect their balance sheets – you may need to reduce your spending. This level of uncertainty means a natural yield approach won't be suitable for everyone.

Look at preference shares if you seek stable income

We explain how they work and why they differ to ordinary shares

Most stocks owned by retail investors are classified as ordinary shares, giving you part ownership of a company, the right to vote and receive any dividends declared. However, there is another category of share to explore.

Preference shares might appeal to investors who are looking for stable income and an alternative to bonds.

Investors owning these shares receive a fixed dividend payment each year. They are ahead of 'ordinary' shareholders in the queue to be paid, but all types of shareholder will be paid after creditors of the company.

The benefit of owning these types of shares is that you will be ahead of ordinary shareholders for a claim on assets in the event the company goes bust. However, preference shareholders typically won't receive a vote at the annual shareholder meeting, so you won't have a say in how the company is run.

Voting rights can be activated if the company does not pay a dividend for a substantial period, which is defined in the company's 'article of association', a document found in the investors' section of the company's website.

While it is generally said that preference shares have a fixed dividend, sometimes that is not true. 'Participating' preference shares give the shareholder the right to further dividends if the company is successful.

For example, one year the company might pay 6p per share to ordinary shareholders and the same to preference shareholders. The following year, the company pays 10p per share to ordinary shareholders but only 6p per share to those holding preference stock.

In this case, the higher dividend for ordinary shareholders might trigger the right for the participating preference shares to also get a bit extra – but not necessarily the full amount.


Antofagasta is an example of a company with both ordinary shares and preference shares

If dividends cannot be paid in a particular year, such as if the company has insufficient profits, preference shareholders would receive no dividend. However, if they owned 'cumulative' preference shares then the dividend entitlement accumulates.

If the company has made sufficient profits, the cumulative preference shareholders will have the arrears of dividend paid in the subsequent year. If the shares were non-cumulative, the dividend from the first year would be lost.

Some well-known companies on the stock offer both types. For example, copper miner **Antofagasta** has ordinary shares **(ANTO)** and preference shares **(70GD)**.

A few investment trusts do the same, such as **City of London Investment Trust** which has ordinary shares **(CTY)** and preference shares **(BA69)**.

While dividend yields can sometimes be higher, a key downside of preference shares is that you may not get as much capital growth as with ordinary shares.

By **Daniel Coatsworth** Editor

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

30 July: Victoria. **3 August:** Filtronic, Joules, NWF. **5 August:** Brickability, Frasers, NCC.

Half-year results

30 July: Essentra, IMI, International Consolidated Airlines, Intertek, Man Group, Natwest, Rightmove. **2 August:** HSBC, Senior, XP Power. **3 August:** BP, Coats, Direct Line, Greggs, Keller, Standard Chartered, Travis Perkins, Ultra Electronics. **4 August:** Ferrexpo, Hiscox, Legal & General, Taylor Wimpey. **5 August:** Centamin, Evraz, Glencore, Hammerson, IP Group, Meggitt, Mondi, Rolls-Royce, Secure Trust Bank, Serco, Spirent Communications, Synthomer, TT Electronics, Tritax Big Box REIT, WPP. **6 August:** Contour Global, Hikma Pharmaceuticals.

Trading statements

30 July: Vodafone, Yamana Gold. **4 August:** Barr (AG), Lamprell

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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