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VOL 23 / ISSUE 34 / 02 SEPTEMBER 2021 / £4.49

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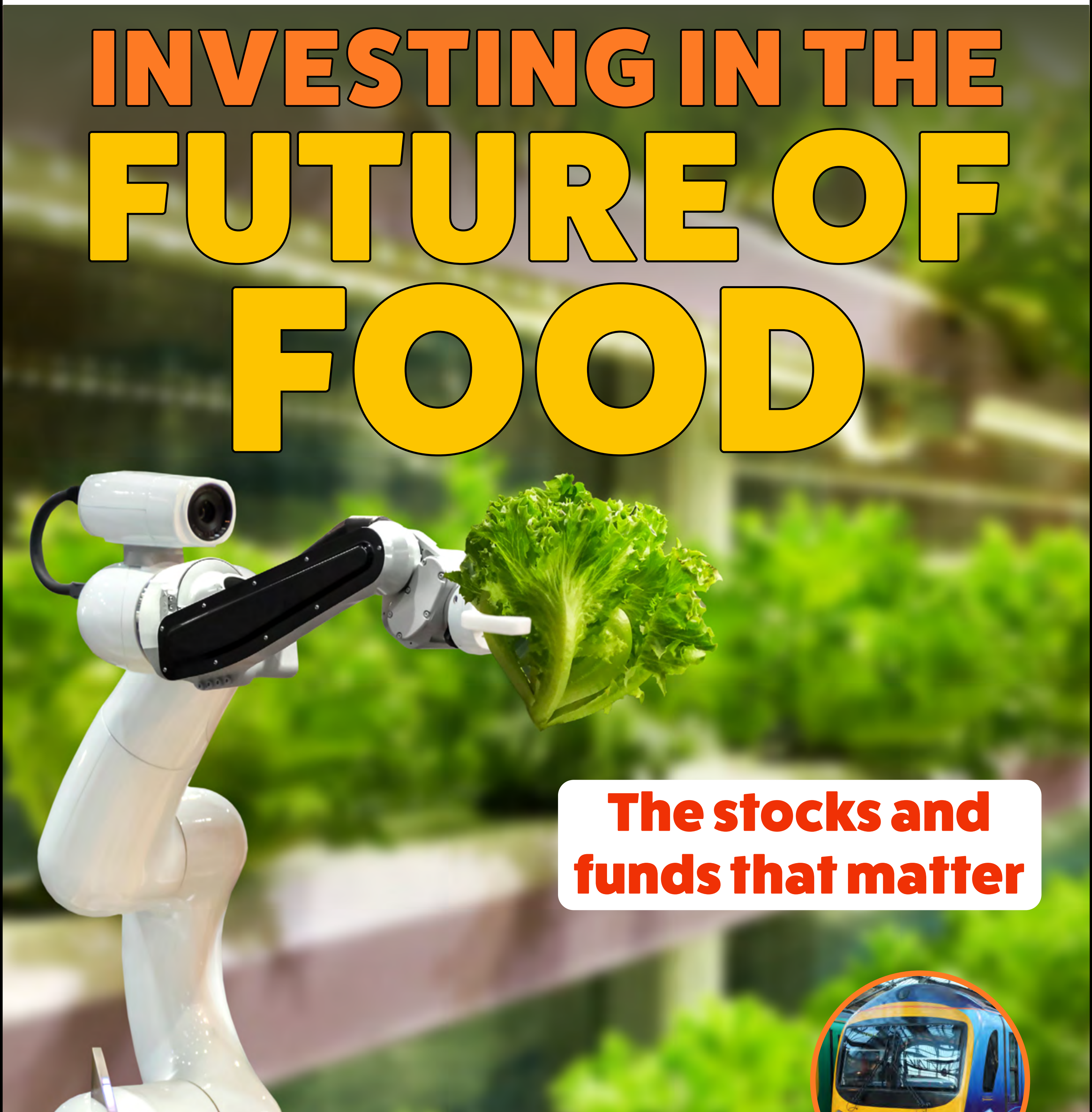

INVESTING IN THE FUTURE OF FOOD

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Too soon to consider buying into Chinese sell-off

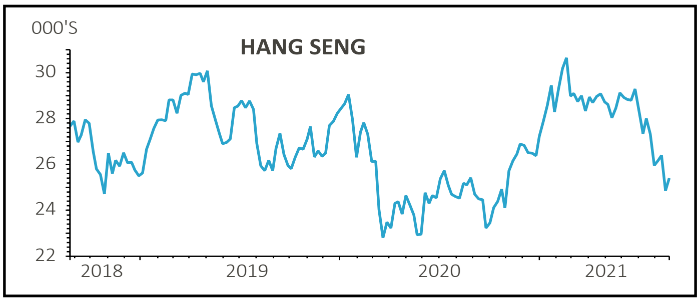
Market sentiment remains weak and it feels as if regulatory interference is far from over

The sell-off in various Chinese stocks has been one of the big investment stories of the year. The threat of regulatory interference from China was quietly bubbling away as 2021 began, but few people thought it would blow up to become such a major force on the markets.

China-related products were among the most sold investment trusts by AJ Bell Youinvest customers in August, illustrating how many investors have been spooked by Beijing getting tough with regulations in various sectors. They include **Fidelity China Special Situations (FCSS)**, **JPMorgan China Growth & Income (JCGI)** and **Pacific Horizon (PHI)**.

Only Fidelity China Special Situations appeared in the most bought investment trusts during August, suggesting that investors are still cautious towards the geographic region.

You can also see caution on a wider basis in the performance of the Hong Kong Hang Seng index. It has tried twice since late July to claw back losses but hasn't been able to sustain any meaningful recovery.



Some of the key Chinese names to have suffered include internet groups Alibaba and Tencent, and search engine Baidu which has nearly halved in value in the past six months.

There have been fears that China has launched an attack on capitalism and wants to turn private sector companies into state-owned enterprises. Ultimately, will Beijing seek to take more control by holding the puppet strings?

The key regulatory focus has been on data privacy, companies having market positions that are too dominant and the structure of Chinese companies listed on foreign stock exchanges, such as New York. The first two points are relevant to a company's growth prospects and the last is relevant to Western investors' ability to own shares in these businesses.

The risks are certainly growing, and it seems that profits could come under pressure if companies must navigate more red tape.

Nervous investors may wish to reduce Chinese exposure, even if some damage has already been done to their portfolio, as all signs suggest further disruption on the regulatory front this year.

Mark Martyrossian, chief executive at Aubrey Capital Management, says investors have previously experienced troubles in China but share prices bounced back as business fundamentals returned to the fore. He also says selling the likes of Facebook, Apple and Alphabet would have been a mistake when the US regulator came knocking, as shares prices recovered.

It's easy to make such comments in hindsight, but an investor would have to be very brave to go all-in with China-related stocks and funds at present.

Making an investment decision requires looking at both the good and bad points, and in this author's view the balance is not currently in favour of buying.

There is no point fighting negative market sentiment when there are still so many unknowns. It's better to wait and let the dust settle before putting more money into this area. There is a lot to debate with China at present and *Shares* will continue to update readers on events. [DC]

DISCLAIMER: AJ Bell is the owner of *Shares* magazine. The author (Daniel Coatsworth) and article editor (Tom Sieber) own shares in AJ Bell.

Reasons why stock markets moved higher on latest Fed news

A meeting of central bankers contained enough news to keep investors bullish

There was no question who was centre of attention at the Jackson Hole summit of central bankers, held virtually rather than in its usual Wyoming location on 27 August. All eyes were on US Federal Reserve chair Jerome Powell and whether he would give the market any clues on the future direction of monetary policy. Fortunately, the news for investors was positive.

Investors had recently started to fret about a tapering or scaling back of support for the economy, with fears there could be a repeat of the taper tantrum in 2013 when Powell's then predecessor Ben Bernanke suggested he would slow the pace of quantitative easing. That action prompted the yield on US treasury bonds to surge and prices to fall, leading to global markets seeing significant volatility.

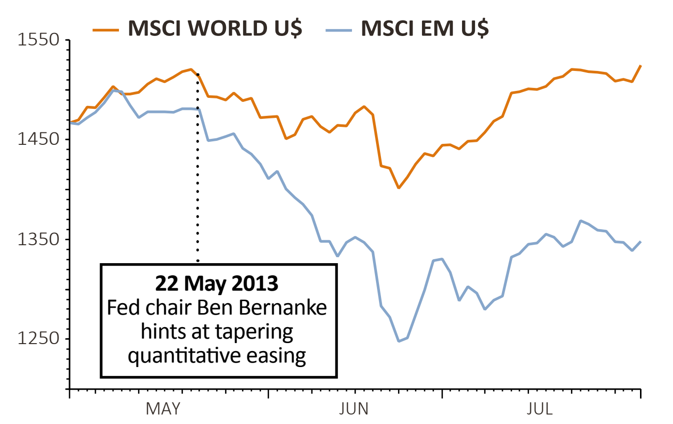
Powell will naturally be aware of this history and he seemed to use his appearance at Jackson Hole to calm any fears over a withdrawal of support for the economy.

He did this in three ways. First, he suggested that while the test of seeing 'substantial further progress' on inflation had been met, the same was not true of the jobs market. Powell specifically referenced the Delta variant as a consideration despite the strong employment figures reported in July.

Second, he made it clear that any decision on tapering financial stimulus should not be taken as a signal that an interest rate hike is imminent. Something which will not be countenanced until the 'economy reaches conditions consistent with maximum employment'.

He also reiterated his view that the current escalation in prices would prove transitory as they were based on a narrow collection of goods and services which have been directly hit by the pandemic and subsequent reopening of the economy. He spent a lot of time on this topic too, seemingly to drive home the point.

What happened in 2013 - the Bernanke taper tantrum



His words had the desired effect as US stocks moved to new record highs, European stocks moved higher and yields on US government debt fell as prices rose.

HSBC chief investment officer Willem Sels pointed out that Powell effectively covered off concerns about inflationary pressures by setting the starting gun on tapering asset purchases, but by confirming the process as gradual he also addressed fears the recovery could be undone by a withdrawal of the Fed's support.

Sels adds: 'It is clear the timing and triggers for tapering are not the same as for rate hikes, which will provide comfort to bond and equity markets.'

Whether Powell's words continue to resonate will be tested when the Fed does begin scaling back stimulus with its meeting on 21-22 September seen as a possible candidate for the start of this process. [TS]

BA-owner's short-haul plans could spark fresh budget airline fares battle

International Consolidated Airlines sees faster low-cost recovery and wants a bigger piece of the market

The owner of British Airways is considering setting up a low-cost short-haul operation that would go into direct competition with **Ryanair (RYA)** and **EasyJet (EZJ)** and could trigger a ticket price war.

Airline conglomerate **International Consolidated Airlines (IAG)**, which owns British Airways, is investigating plans that would shift its current short-haul flights into a new low-cost subsidiary based at Gatwick Airport as it continues to look for ways to offset pandemic-induced declines in long-haul traffic.

This would allow British Airways to take on dominant European discount carriers, such as Ryanair, EasyJet and **Wizz Air (WIZZ)**, from a level playing field.

A British Airways spokesman has said the airline is currently in talks with unions over the possibility of a new subsidiary but has given no further detail.

'The subsidiary is intended to have a lower cost base enabling British Airways to compete more effectively in the short-haul market, which is recovering more quickly than long-haul,' said analysts at investment bank Berenberg.

Ryanair nudged up its passenger target for the autumn amid signs of a 'very strong recovery' in European short-haul flights, chief executive Michael O'Leary told *Reuters* on 31 August.

British Airways has traditionally earned much of its revenue from long-haul flights, especially its key US to UK routes, and has been hit hard by Covid as these flights have been severely disrupted by the pandemic.

The airline suspended flights from Gatwick at the start of the health crisis to use vacant slots at Heathrow but with flight demand starting to claw its way back to pre-pandemic levels as travel

restrictions are gradually reduced, the airline is said to be keen to re-establish its presence in the short-haul end of the market.

'The airline had pivoted its reduced capacity more towards Heathrow since the start of the pandemic, with short-haul generally used to feed traffic into its more profitable long-haul business,' said Berenberg's analysts.

British Airways would hope to have the low-cost operation up and running in time for next summer, according to reports, and will operate under the same British Airways brand. The airline already owns low-cost, short-haul operators Vueling and Level, which operate out of bases across southern and central Europe.

Plans for the low-cost expansion come at a time when question marks remain over the level of business travel post-pandemic. More companies have realised that meetings can be efficiently held via web-based conference platforms such as Zoom and Teams, and so money can be saved by travelling less, which would also benefit environmental goals.

According to *The Times*, sweets and pet food giant Mars is planning to cut corporate travel by half and book 145,000 fewer flights a year. In April, *Bloomberg* reported that banking group **HSBC (HSBA)** was budgeting for half its pre-pandemic business travel costs. [SF]

What investors should do after Prudential's Jackson Life split

It looks sensible to sell shares in newly demerged US insurance arm

Insurance giant **Prudential (PRU)** is poised for a major change as it plots the imminent demerger of its US Jackson Life business.

In October 2019 Prudential spun off its fund management arm **M&G (MNG)**, crystallising a £5.6 billion valuation with investors receiving shares in both companies.

Prudential is now close to demerging Jackson Life, with the process set to take place later in September. Investors will receive one share in Jackson for every 40 shares held in Prudential.

In our view investors should sell the shares they receive in Jackson Life which will be listed on the New York Stock Exchange, and retain their holdings in UK-listed Prudential.

WHY INVESTORS SHOULD SELL THEIR SHARES IN JACKSON LIFE

Low interest rates coupled with high market volatility have combined to create extremely difficult conditions for Jackson Life's core variable rate annuity business. This has resulted in higher reserve requirements and hedging costs which have consumed a huge portion of the cash flows generated by the business.

Moreover the American business is distinctly mature and the market is sceptical about the sector's ability to generate consistently high returns. This is reflected in the market ratings ascribed to Jackson's peer group. Brighthouse trades at 0.13 times its net asset value and just 2.5 times forward earnings and Lincoln National trades at an almost as unloved rating of 0.3 times NAV and 3.4 times forward earnings.

Prudential has consistently struggled to generate consistent returns from what is a mature but well regarded annuity business. Exiting Jackson provides

management with the opportunity to generate capital that it can invest more lucratively in its Asian operations.

It also raises the prospect of closing a material valuation discount to its closest Asian peer, AIA.

WEIGHING UP THE ASIAN OPPORTUNITY

The demerger of Jackson Life will transform Prudential from being an incongruous growth/value hybrid into a pure growth play driven by a growing Asian middle class, and the associated demand for savings and insurance products.

Prudential has a unique and leading position in fast-growing and increasingly affluent Asian markets, where it focuses on savings and health and protection products, supported by a leading agency and bancassurance (the term for when banks sell insurance products) distribution network.

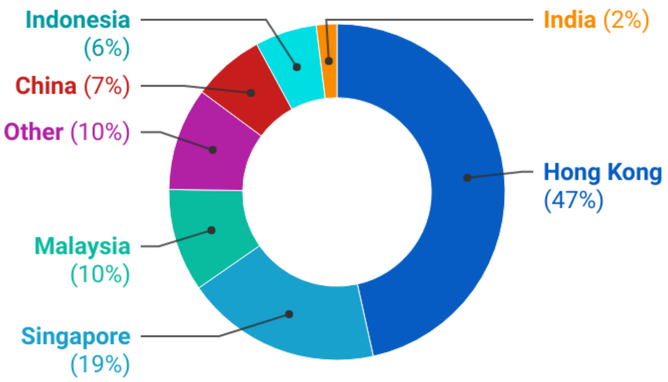
A FOOTPRINT FROM CHINA TO INDIA

Prudential has a strong business franchise that extends across China to India. Hong Kong is the largest market with respect to APE (annual premium equivalent), with the region constituting 39% of pre-pandemic APE, and 25% of pre-pandemic operating profit.

Prudential has a number three market share position among foreign players in Hong Kong, and number five position overall.

Asian life insurance continues to grow strongly and Prudential's agency distribution network seems well placed to capitalise on strong medium-term trends to higher insurance penetration. Margins are high and seeing little pressure, while volumes are shrugging off recent volatility in emerging markets.

Prudential enterprise value by geography 2020



Does not add up to 100% due to rounding up

Source: Company data • Created with Datawrapper

Indonesia is a disproportionately lucrative market for Prudential, accounting for approximately 8% of APE and 20% of operating profits.

In addition to both population and income growth, market growth in the region is being driven by new product development including sharia-compliant offerings. Prudential enjoys strong market share positions in the lucrative markets of Thailand, Singapore and Malaysia.

Prudential is also focusing on growth markets in India, Vietnam and the Philippines. It is interesting to note that in none of these markets is insurance penetration beyond the mid-single digits. In most instances the rates are in the low single digits.

RESULTS VINDICATE THE STRENGTH OF THE ASIAN FRANCHISE

Prudential's recent first-half results revealed an unexpected strength in the recovery of Asian sales. Overall, sales and margins both significantly exceeded consensus expectations, with APE beating by 6.9%, and NBP (new business profit) by 8.8%.

The group continued to see good momentum in China with new business profit up by 65%, and in its growth markets where NBP increased by 44%.

Equally impressive was the recovery in the more mature markets of Singapore and Malaysia where NBP increased by 65% and 59% respectively.

Indonesia was an area of disappointment with NBP declining by 17% in response to the surge in Covid cases, and the associated lockdown measures. Hong Kong was also an area of weakness with NBP declining 13% in the wake of border restrictions.

CLOSING THE VALUATION GAP

In a recent research note UBS Insurance analyst Colm Kelly argued that 'Prudential's Asia business is intrinsically undervalued to the tune of 40%'.

The UBS analysis suggests that Prudential Asia is currently valued at 1.1 times its embedded value (the present value of future profits plus adjusted net asset value), versus 1.7 times for it closest peer AIA.

UBS comments: 'A lack of comparability impairs investors' ability to price this with conviction, creating a complexity overhang on the stock.

'However, once the US business is demerged, price discovery from Prudential Asia can begin, resulting in a progressive unlocking of the full value through multiple expansion over time.' [MGar]

Reshaped Marks & Spencer is bringing the magic back

Perennial retail underperformer's transformation has real traction

After years of false dawns, it appears British retailer **Marks & Spencer (MKS)** is finally regaining its mojo.

Shares believes this is a great time to invest in the retail bellwether, which could be in the foothills of an earnings upgrades cycle, with half-year results in November offering the next potential catalyst for the share price.

The FTSE 250 retailer's shares jumped following its first positive unscheduled statement in years (20 Aug), which showed the turnaround under CEO Steve Rowe and chairman Archie Norman is delivering results.

However, the share price remains 75% below 2007's 711p peak and could rally further as Marks & Spencer cashes in on pent-up consumer demand, thereby hopefully closing a valuation gap with clothing and homewares rival **Next (NXT)**.

Besides being the UK's number one clothing retailer by market share, Marks & Spencer is also a very successful food retailer whose attractions may even draw a takeover offer, with a bidding war underway for rival **Morrisons (MRW)**, and **Sainsbury's (SBRY)** is being talked about as a current target for private equity.

MARKS & SPENCER
BUY
(MKS) 178.5p
Market cap: £3.5 billion

STRONG START

Fashion-to-foods purveyor Marks & Spencer has just reported a better-than-expected start to its new financial year and raised full year profit guidance. It flagged outperformance in food – where prospects have been transformed via its joint venture with **Ocado (OCDO)** – as well as a 'good recovery' in clothing and home sales, demonstrating that management's comprehensive change programme is delivering results.

Albeit just five months into the financial year to March 2022, and with the caveat there are no further Covid-related trading restrictions, Marks & Spencer now expects adjusted pre-tax profit for the year to be above the upper end of previous £300 million to £350 million guidance.

Over the 19 weeks to 14 August, food sales were up 10.8% on last year's lockdown-impacted period and 9.6% above the comparable period in pre-pandemic 2019/20. 'Core categories and retail park locations have traded strongly,' explained Marks & Spencer, which added that 'hospitality

M&S regaining its mojo

Year to March	Sales (£m)	Adj PTP (£m)	EPS (p)	DPS (p)
2021 (A)	8973	41.6	1.4	0
2022 (F)	10544	352.1	13.9	0
2023 (F)	10657	392.5	15.9	5.3
2024 (F)	10827	438.4	17.7	5.9

Source: Company data (A), Shore Capital estimates (F).
PTP=pre-tax profit. EPS=earnings per share. DPS=dividend per share

Net debt expected to fall

Year	Net debt (£m) - excluding leases
2020 (A)	1389
2021 (A)	1110
2022 (F)	994
2023 (F)	917
2024 (F)	921

Source: Company data (A), Shore Capital estimates (F)

and franchise are progressively improving, although remain below 2019/20 levels.'

Meanwhile, the clothing and home business which has long-dogged Marks & Spencer witnessed a good recovery in its performance, with sales coming in only 2.6% below the levels seen two years ago (pre-Covid) and 92.2% ahead of last year. Strong full price sales, reflecting more focused ranges, fewer promotions and a much smaller summer sale supported gross margins.

For once, Marks & Spencer is keeping up with fashion trends, with signs that it is placing less emphasis on suits as worker trends change and more on smart casual and athleisure.

Crucially, Marks & Spencer flagged significant progress with its online business, suggesting it can emulate omni-channel star turn Next, which is excellent at combining stores and online capacity to get consumers the products they want when they want them.

While Marks & Spencer's in-store clothing and home sales have remained under pressure, online sales were ahead by an impressive 61.8% in the period. This demonstrates its 'MS2' plan, which is able to draw on the retailer's customer data engine and relaunched and enlarged Sparks loyalty programme to create a powerful insight tool and more personalised relationships with customers, is having success.

Admittedly, the international business remains a rather mixed bag, though management insisted the push into global online remains promising with sales up roughly 40% on last year and more than doubling on the pre-pandemic comparable period in 2019/20.

THE SHORE CAPITAL VIEW

'Increasing self-confidence is clearly evident across the M&S group,' says broker Shore Capital following the update. It adds: 'We see the growing potential for a sustained upgrade cycle as years of hard work, accelerated through the Covid crisis, begin to bear fruit.'

The broker's upgraded forecasts for the year to March 2022 point to an adjusted pre-tax profit rebound from last year's lockdown-impacted £41.6 million to £352.1 million, building to £392.5 million and £438.4 million

in 2023 and 2024 respectively.

Shore Capital conceded its upgraded current year estimates could yet 'prove cautious' as we move through the year, though the brokerage also flagged the fact that Marks & Spencer faces growing pressure on costs and margins from well-documented disruption across global and domestic supply chains.

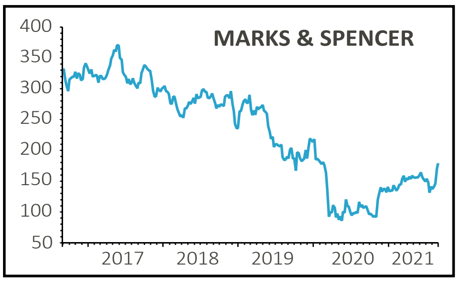
Based on Shore Capital's earnings estimates, Marks & Spencer trades on a prospective price to earnings multiple of 11.2 for 2023, falling to just 10.1 for 2024. That looks great value and is a material discount to Next, which sells for 17 times estimates for the year to January 2022 and almost 15 times forecast January 2023 earnings according to Refinitiv.

As well as re-rating scope, income-seekers should note Shore Capital forecasts a return to dividends in fiscal 2023, meaning Marks & Spencer could soon offer a near-3% yield based on next year's 5.3p dividend estimate. [JC]

Latest annual revenue split

	Year to 27 March 2021	Year to 28 March 2020
UK Food	5,995	6,028
UK Clothing & Home	2,199	3,209
International	779	945

Source: Company data



Great time to buy Fundsmith sister fund Smithson

It follows the same process as the popular Fundsmith Equity Fund but invests in different stocks

SMITHSON INVESTMENT TRUST
BUY
(SSON) £19.15

Market value: **£3.1 billion**

Fundsmith is one of the most popular asset managers on the market, and with good reason. Its mantra of investing in high quality companies at a decent price and not constantly trading in and out of stocks has produced good performance.

Fundsmith chief executive Terry Smith manages **Fundsmith Equity Fund (B41YBW7)** which has returned 540% since launch in November 2010 and is now one of the most popular funds among UK investors. *Shares* sees merit in owning both this product and its sister fund, **Smithson Investment Trust (SSON)**.

Smithson follows the same investment ethos, albeit backing smaller companies. Its holdings have an average market value of £11.3 billion, versus Fundsmith Equity's equivalent £103 billion, across a similarly concentrated portfolio of between 25 and 40 stocks. Investors can own both funds and not have to worry about any overlap.

While Terry Smith doesn't run Smithson, manager Simon Barnard still follows the same investment process as his boss.

The first half of 2021 presented Barnard with a new sensation, namely Smithson underperforming its benchmark for the first time since its October 2018 launch on a six-month basis.

The trust's portfolio of higher-rated growth stocks fell out of favour with markets earlier this year as investors looked for value as global inflation spiked. The investment trust returned 5.9% on net assets and 4.1% on a share price basis, well below the 12.4% gain from its MSCI World Small and Mid-Cap benchmark.

However, this spell of short-term weakness is already showing signs of reversing, with Smithson's net assets up 7.2% through July and August, versus a 0.9% rise for the index.

Equally encouraging, Barnard believes that rising prices will not cause significant issues for Smithson's portfolio companies. They typically have low input costs and capital requirements as well as pricing power. This should mean passing on cost increases to end users.

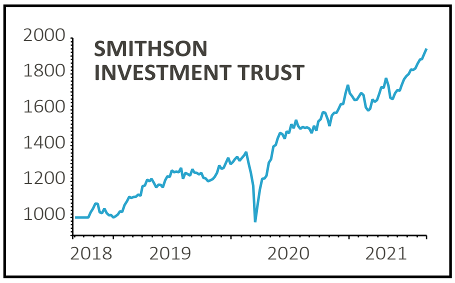
Investec expects the power of compounding to generate superior returns for Smithson over the long term, as it has in its near three-year lifespan.

In that limited timeframe Smithson has doubled the performance of its benchmark, with net assets and share price total return up 82.3% and 86.2% respectively, against 40.4% of its equity comparator.

In other words, £10,000 invested in Smithson over the near-three years would have turned into £18,620, compared to £14,040 from a relevant index tracker. Left in the bank, you'd be lucky to have made £150 in interest.

Smithson's ongoing charges fluctuate but averaged 1% in 2020, including a 0.9% management fee, well worth paying given the outperformance potential. [SF]

DISCLAIMER: Author Steven Frazer and Editor Daniel Coatsworth have personal investments in Fundsmith Equity and Smithson.



OXFORD INSTRUMENTS
(OXIG) £26.95

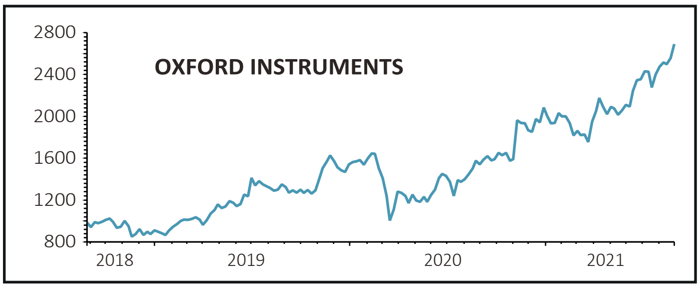
Gain to date: 98.2%
Original entry point:
Buy at £13.60, 7 November 2019

EXCELLENT COMPANIES OFTEN go about their business quietly and with little fanfare but, as one analyst said, 'it is one thing to grow sales and improve margins in strong markets, quite another to do it amid a global pandemic.'

Oxford Instruments (OXIG) is a cutting-edge science tools designer and maker which has demonstrated its world class expertise and the enormous value it brings to the wider scientific community.

There are lots of reasons to be optimistic about the journey ahead too, with a strong order book, operating margins well on the road to 20% (17.8% last year) and with around £100 million of net cash giving plenty of scope for value-adding acquisitions should opportunity present itself.

In July the company gave a strategy presentation to analysts at Shore Capital and while no new market sensitive information was given away, the analysts were left highly encouraged by the significant progress Oxford has made and the long-term outlook assessment.



SHARES SAYS:
The 12-month price to earnings ratio sits at 32 which might put some investors off. However, there is scope for a higher share price if the margins expansion happens faster than expected. We still believe the shares are worth buying. [SF]

VOLEX

(VLX:AIM) 412P

Gain to date: 10.8%

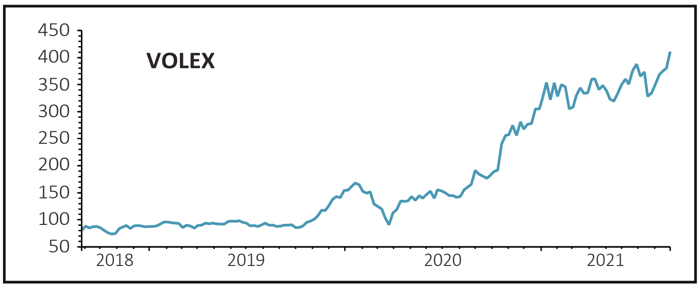
Original entry point:

Buy at 372p, 24 June 2021

POWER CORDS AND cable assembly group **Volex (VLX:AIM)** is off to a decent start since we added it to our *Great Ideas* portfolio in late June.

The latest catalyst for the shares has been the $16.4 million acquisition of US electronic solutions manufacturer Irvine Electronics.

We flagged M&A as a key plank in the Volex's growth strategy in our initial article as the group looks to hit its $65 million underlying operating profit and $650 million revenue targets by 2024 and this latest deal has received a positive reception.



Canaccord Genuity analyst James Wood said: 'Irvine Electronics is a 30-year-old family-run business. We understand Volex has been talking to the owners for the last two years, with the sale driven by the recent retirement of the founders.

'We believe the deal looks good value at 4.3-5.7 times earnings before interest and tax versus the six to eight times range that Volex typically strikes deals at and reinforces the group's growing reputation as a patient and shrewd acquirer.'

SHARES SAYS: ↗
This looks a smart addition by the company and only enhances our positive view of the stock. Keep buying the shares. [TS]

ADVERTORIAL

EXPECT EMERGING MARKET ASSETS TO SHINE

PICTET
1805
Asset Management

Emerging markets are predicted to account for 57% of global GDP by 2030, yet they currently only make-up 12% of the global equity and 4% of the global bond indices[1]. Capturing the EM-DM growth differential is more important now than ever. Increasing commodity prices, a weaker US dollar and increased global trade are all tailwinds coming together for emerging markets assets in 2021. China's rising importance in financial markets, and the emergence of the Renminbi Bond market now provides a vital diversifier and safe haven asset within emerging markets for multi asset investors.

1 Source: Pictet Asset Management, DataStream, MSCI AWCI and JPM GBI Broad bond index as at 31.12.2020.

"The opportunity set in emerging markets is vast and complex. We have the expertise to find opportunities and diversify investments across this wide investment universe with the aim to provide stable returns while controlling downside risk."

Shaniel Ramjee,
Senior Investment Manager,
Pictet-Emerging Markets Multi Asset fund

The Pictet-Emerging Markets Multi Asset fund: A single asset allocation solution to emerging markets:

- The new fund simplifies investing in emerging markets, aiming to provide **a single asset allocation solution** to emerging markets.
- The fund allows investors to gain exposure to **emerging market growth opportunities** without the complexity of choosing how, when and where to best allocate within emerging markets.
- Taking a multi asset approach gives investors the added **benefit of diversification** across regions, sectors and assets within EM.
- We believe the significant dispersion in returns across the emerging universe may provide opportunities to maximise returns while **controlling for downside risk**.
- The fund will be invested following Pictet Asset Management's **commitment to responsible investment**. The experience of our emerging market specialists is a key resource in evaluating the ESG impact.

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

FTSE 250 companies that score well for financial health

We also look at director holdings and the flaws of forecasting

This is the final part of our three-part series on the FTSE 250. Read our introduction here and catch up on the growth versus value debate in part two here.

In this last part of our mini-series on the FTSE 250 we take a look at some of the higher quality stocks that inhabit the UK's mid-cap universe. We will discuss some of the companies that demonstrate real financial strength and balance sheet health, show some of the stocks with the largest boardroom stakes, including what this can and cannot tell investors, and finish up with a spin through the index through an analyst lens, showing stocks with some of the biggest upside potential if existing price targets prove correct.

FINANCIAL FITNESS

Most investors will have a reasonable grasp of metrics that highlight a company's balance sheet strength and overall financial fitness. Things like return on capital employed, free cash flow, revenue and earnings reliability and debt management are part of everyday stock investment.

But there are more ways to skin a cat, and the Piotroski rating is one useful tool to have at hand that can help improve investment returns. Professor Joseph Piotroski, at the University of Chicago, developed the F-Score to improve the returns of an investment strategy, particularly when hunting for companies trading cheaply relative to their assets, or book value.

The Piotroski F-Score is a nine-point scoring system designed to evaluate the financial strength of a business based on its profitability, leverage, liquidity, source of funds, and operating efficiency. Based on his study, a firm with a Piotroski score of eight or, ideally nine, is in a strong financial position while companies with a score lower than three are financially weak and should be handled with caution.

His back-tested study showed

On Piotroski cloud 9

	Piotroski F-Score
Watches of Switzerland	9
Ferrexpo	9
Firstgroup	9
Inchcape	9
IMI	9
Ultra Electronics	9
Jupiter Fund Management	9
XP Power	9
AO World	9

Source: Stockopedia

that it worked. If you invested in only companies that scored eight or nine on his F-Score scale over the 20-year period from 1976 to 1996, you would have outperformed the market by an average of 13.4% per year.

According to Stockopedia's Piotroski F-Score list, companies like bus and trains operator **FirstGroup (FGP)**, car dealer **Inchcape (INCH)** and engineer **IMI (IMI)** all score top marks. Stand out companies include power electronics firm **XP Power (XPP)**, bakeries marvel **Greggs (GRG)** and **Watches of Switzerland (WOSG)**, the luxury timepiece seller that is rapidly proving its quality as a business.

WATCHING THE DIRECTORS

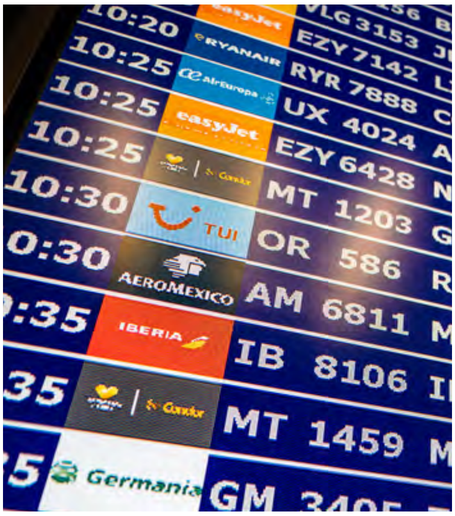
Investor opinion is split about how important it is to follow the buying and selling of company directors, and how big their personal holdings are in the businesses they run. Many believe that a large stake in a company indicates that boardroom interests are better aligned with that of ordinary investors. That may be true, at least to a point, but whether stock purchases, or sales of shares, tell us anything meaningful about future returns is moot.

Take, for example, retailer **Frasers (FRAS)** and **TUI (TUI)**, the holidays company. Based on Sharepad data, this pair have the largest director shareholdings of the whole FTSE 250 index – 63% and 62% respectively. Yet their three-year share price total returns records could hardly be more different, the former up 70.3%, the latter falling nearly 50%.

Biggest director stakes vs three-year total return

	Director stakes	Three year total return
Frasers	63.6%	70.3%
TUI	62.2%	-49.1%
CMC Markets	59.9%	173%
CLS	58.1%	16.1%
Renishaw	52.9%	-2.93%
Ferrexpo	50.3%	257%
Hochschild Mining	38.6%	-7.2%
Dunelm	38.2%	170%
Ashmore	35.3%	25.3%
IWG	28.5%	28.0%
Cineworld	28.0%	-66.5%
AO World	27.5%	58.4%
AJ Bell	23.2%	N/A
JD Wetherspoon	22.1%	-7.55%
Wizz Air	21.8%	63.2%
Aston Martin Lagonda	21.7%	N/A
Kainos	21.3%	400%
Big Yellow	15.8%	72.9%
Telecom Plus	14.5%	17.2%
Energean	13.2%	26.0%

Source: Sharepad *1 Sep 2018- 25 Aug 2021



As the table shows, it is a similar story when directors own relatively small chunks of the companies they run. The bosses of publishing business **4imprint (FOUR)** and insurer **Hiscox (HSX)** both own less than 2% of their respective shares available. Yet here also, returns have been markedly different, 4imprint up 49% over three years versus Hiscox down 41%.

Directors might buy or sell shares in their company for many genuine reasons, and most of the time their rationale is not made public. The thing to be aware of are the stock purchases as PR stunt – just because a director believes their stock to be undervalued doesn't make it so.

BETTING ON ANALYSTS

Another way of trawling the FTSE 250 for investment ideas is to seek out stocks with the largest potential for gains – that is to say, where analyst share price targets

Biggest upside to share price*

	Share price 25 Aug	Consensus target price	Upside to target price
Puretech Health	334p	664p	98.8%
Energean	673p	£11.52	71.2%
TP ICAP	196p	305p	55.6%
Hochschild Mining	153p	238p	55.6%
Micro Focus	436p	667p	52.3%
AO World	229p	347p	51.5%
Avon Protection	£18.95	£28.45	50.1%
Telecom Plus	£10.40	£15.25	46.6%
Essentra	286p	410p	43.4%
Mitie	73p	103p	41.1%
Wickes	239p	335p	40.2%
Indivior	192p	263p	37.0%
Rank	179p	242p	35.2%
Homeserve	923p	£12.45	34.9%
Vivo Energy	107p	144p	34.6%
Centamin	99p	132p	33.3%
RHI Magnesita	£38.54	£50.98	32.3%
Network International	378p	500p	32.3%
Syncona	205p	271p	32.2%
Harbour Energy	367p	485p	32.2%

Source: Sharepad *based on analyst forecast price targets

imply the biggest upside.

Taking the data, supplied by Sharepad, at face value may be a mistake, certainly in isolation. On this bases, shares in biotherapeutics company **PureTech Health (PRTC)** could double over the next 12 to 18 months, and another half a dozen FTSE 250 stocks could rise by more than 50%.

Yet analysts are nearly always optimistic regarding the companies they cover, and data suggests, often too optimistic. Again, observing total returns over the past three years can provide a useful steer. For example, the aforementioned Puretech has delivered a total return of more than 100%, which may make analyst forecasts of 98.8% share price upside more believable, perhaps.

The City number crunchers that cover online white goods retailer **AO World (AO.)** see share price gains (51.5%) over the months ahead, yet it has a patchy returns track record. Seen as a huge pandemic winner, its stock rallied in the belief that millions of us would in the future be buying our appliances online. That enthusiasm has quickly begun to ebb as the realisation dawns that, as running costs soar, the model has still to demonstrate it can sustain profits and grow them as management hope.

There is value in spotting stocks that have fallen out of favour with the market because of temporary and correctable factors, but the strategy comes with substantial risks if things done work out. At the same time, financially strong companies with structural growth drivers and a track record of operational excellence will typically carry a hefty premium. Investors must decide what suits them.

Disclaimer: AJ Bell, referenced in one of the tables, owns Shares magazine. The author (Steven Frazer) and article editor (Tom Sieber) own shares in AJ Bell.

By **Steven Frazer**
News Editor

An introduction to charting for first timers

Some investors frown on technical analysis but it can be a useful tool

Seasoned investors often dismiss technical analysis as having nothing to do with fundamental research, and of course they are right. There is no substitute for doing your own research on a company before buying shares.

However, a picture paints a thousand words, and while share prices are meant to respond to fundamentals, like the outlook for profit and the economic backdrop, emotion can play a large part in how stocks move.

CHARTS TELL A STORY

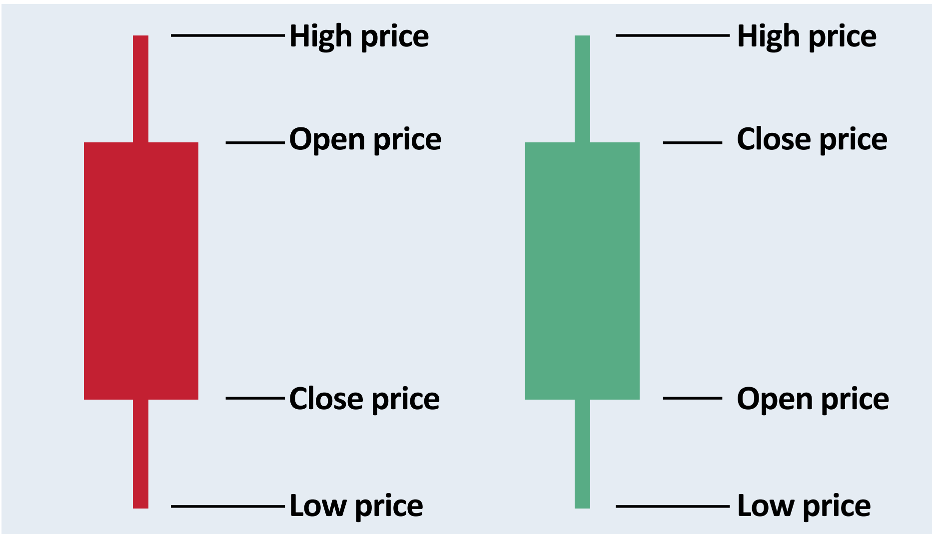
Charts can help you gain an understanding of investor emotion or sentiment and this is the first of a multi-part series aimed at demystifying technical analysis and the analysis of charts.

To kick things off, we're going to take a look at one of the most popular style of charts are known as Japanese candlesticks. Believed to have been invented in the 1700s by rice traders, candle sticks don't just show the closing price for a stock, they also show the opening price and the intra-day high and low, which can tell you a great deal about how a stock traded over the day.

In the first example in our graphic (Japanese Candlesticks), the red body means it was a down day for the stock, with the 'wick' at the top representing the intraday high and the 'shadow' at the bottom showing the intraday low.

Charts can help you gain an understanding of investor emotion or sentiment

Japanese candlesticks



Source: Shares

Direct Line Insurance Group PLC

Source: Shares website

Originally up days were white and down days black, as the charts were hand-drawn.

In the second example, the high and low are represented again by the wick and the shadow but as the shares closed up on the day the body is green.

WHERE TO FIND WHAT YOU NEED

To call up a candlestick chart on the *Shares* website, first choose a stock in the search box. We have picked **Direct Line (DLG)**. Underneath the menu bars and the share price data is an intraday chart, and underneath that is a link to Advanced Charts.

Above the bar showing the date range is the cog-shaped Settings icon with a drop-down menu. Click on Display, under Cursor Type click Off, and under Chart Type click Candlestick.

Clicking anywhere on the chart will close the drop-down menu. We have selected the six-month chart, and immediately it contains more information than a simple line chart.

For starters, there are more red (down) candles than green (up) candles, so sellers have had the upper hand over six months, and there have been some sizeable drops.

However, that trend seems to have changed since mid-July with the shares making three-month highs following the latest earnings report.

LOOKING FOR PATTERNS

Experienced traders will scrutinise these charts to look for signs of reversal patterns such as 'bullish engulfing' and 'bearish engulfing' candlesticks, or 'bullish harami' and 'bearish harami'.

What is a reversal pattern?

This is a pattern in the price of investment which shows a shift in the prevailing trend. Meaning that either the bulls (buyers) or bears (sellers) in a market have run out of steam.

There are plenty of resources online for novice chartists to start their own journey of discovery and we'll be looking at other elements of charting in upcoming articles.

By **Ian Conway,** Senior reporter

INVESTING IN THE FUTURE OF FOOD

The stocks and funds that matter

By **James Crux,**
Funds & Investment Trusts Editor

The world is on the cusp of the most consequential disruption in food and agricultural production since domestication of plants and animals began thousands of years ago.

As highlighted in Baillie Gifford's 2020 'Positive Change Impact Report', in 2050, the global population is expected to reach 10 billion, up from around 8 billion today.

This explosive population growth will require global food production to increase by somewhere between 24% and 70%, heaping pressure on a complex global system encompassing farmers, traders, food manufacturers and food retailers.

While this global food system feeds the majority of the world's population today and food supply per capita has increased more than 30% since 1961, it is alarming to find out that 821 million people remain undernourished.

Besides food security, one of the other great challenges facing the food system is climate change, with agriculture being particularly vulnerable to climatic shifts. Up to 37% of total greenhouse gas emissions are attributable to the food system, with significant contributions arising from crop and livestock activities.

And as the latest investor presentation from cellular agriculture company **Agronomics (ANIC:AIM)** illustrates, the environmental and health implications of animal husbandry are severe, with 18% of all anthropogenic greenhouse gas emissions coming from animal agriculture. That's more than all forms of transport combined.

Furthermore, 80 billion animals are slaughtered each year for meat, with 2 trillion fish killed annually for human consumption.

And a staggering 80% of all antibiotics are used in agriculture, while 75% of all new human pathogens originate from animals, a risk that will resonate with all of us as we emerge from the Covid pandemic.

FOOD REVOLUTION UNDERWAY

Population growth twinned with rising incomes for billions of consumers is driving an expansion in the value of the world food economy.

As household incomes increase, consumers are diversifying diets away from staple foods into higher value products such as meat, dairy and fresh fruit, which has an impact across the length of the food and agriculture value chain.

2020 was the year in which demand for sustainable food products accelerated, as the pandemic prompted people to pay more attention to their diet and heightened concerns over the ways in which food production impacts ecosystems, biodiversity and deforestation.

In short, a food revolution is on its way and investors hungry for exposure to the theme should position portfolios for the profound shift that is taking in place in what we eat and how it is grown.

INVESTMENT OPTIONS

Agriculture has an enormous environmental impact, yet innovation can help make agriculture more sustainable while meeting growing food demand.

One great example is precision agriculture; by combining technologies such as sensors, satellite communication and software, the likes of US-listed agricultural equipment leader Deere & Co are helping farmers to increase yield while using less fertilisers and pesticides.

High in meat and dairy products, the western diet is also contributing to greenhouse gas emissions, which is where disruptors such as Beyond Meat with its plant-based burgers,

COULD VERTICAL FARMING BE THE NEXT BIG THING?

Indoor or vertical farming is among the latest green technology trends, with US-listed Village Farms and AppHarvest capturing investors' interest, although both have had a few share price stumbles in 2021.

Canadian firm Village Farms grows agricultural produce, but it also owns cannabis maker Pure Sunfarms, which makes it a fairly speculative investment. US firm AppHarvest, on the other hand, sticks to growing tomatoes and vegetables.

AppHarvest claims its high-tech indoor farms, which are lit by LEDs and controlled by sensors and cameras using the Internet of Things, use 90% less water than traditional farms and yield up to 30 times the amount that could be produced from a similar sized plot of agricultural land. It plans to have a dozen sites across the southern US by 2025.

The latest vertical farming company to list its shares on the stock market is AeroFarms, also based in the US, which claims it can achieve nearly 400 times greater productivity per square foot than traditional agriculture, while also using 95% less water. It mainly grows greens, and its biggest customer is Amazon-owned Whole Foods.

While there are no pureplay vertical farming companies on the UK stock market, online grocery delivery firm **Ocado (OCDO)** has invested in several indoor farms in recent years and plans to locate new sites close to or within its customer fulfilment centres to reduce time to market.

sausages, ground beef and chicken comes in.

Founded in 2009, Beyond Meat aims to replicate the taste and texture of meat products using vegetable proteins and transition ravenous consumers to a more plant-based diet as it sells its products through retailers and fast-food outlets.

Rebalancing diets in favour of plant-based products will reduce the emissions associated with the livestock industry as well as the flow of antibiotics into people and the environment. We discuss Deere & Co and Beyond Meat in more detail later in this article.

RECENT STOCK MARKET DEBUT

Another company whose shares trade on the US stock market and which offers healthier eating and drinking options is Sweden-based oatmilk maker Oatly.

Investor excitement saw the stock soar on its NASDAQ debut in May. However, the share price has since come back a lot after a negative report from short-seller Spruce Point, which attacked Oatly's sustainability claims and believes the company will never achieve profitability. This weighed on sentiment towards the stock.

Backed by celebrities including Oprah Winfrey, Oatly is seeing robust consumer demand for its oat-based products, which now include ice cream and yoghurt, although the business remains loss-making as it invests in expanding production, building brand awareness and entering new markets.

A LESSER-KNOWN STOCK

Relevant stocks to the future of food theme on the UK market include Agronomics, the cellular agriculture investor focused on cultivated meat and alternative proteins.

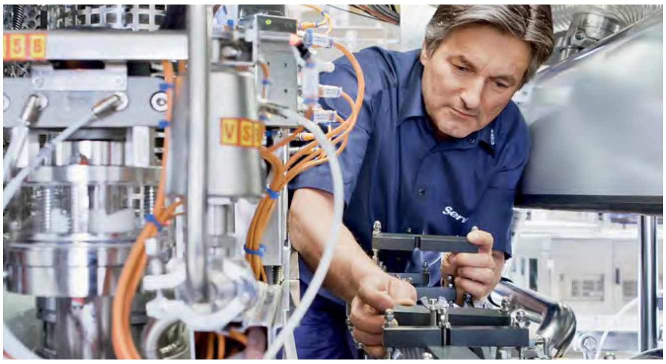
Cultivated meat is meat grown in a laboratory using bioreactors, without the need to raise animals for slaughter, which has the same appearance, taste and texture of meat but with purely non-meat media as inputs.

Agronomics has established a portfolio of early-stage companies in this rapidly advancing sector. Its cultivated meat sector holdings include BlueNalu, producing seafood products directly from fish cells, Dutch cultivated meat company Meatable and Shiok Meats, the world's first cell-based crustacean meat company.

Funding in the cultivated meat sector is growing, with roughly $170 million invested worldwide between 2016 and 2019 and over $270 million raised in 2020 alone. Global consultancy AT Kearney predicts that cultivated meat's market share of meat consumption will reach 35% by 2040.

VARIOUS FUND OPTIONS

Investors looking to take a taste of the theme without single stock exposure could explore exchange-traded fund **Rize Sustainable Future of Food (FOGB)**. It tracks an index of shares in compares that are 'innovating across the food value chain to build a more sustainable, secure and fair food system for our planet'.



This index follows a purity-based weighting scheme where companies with higher revenue exposure to the theme achieve a bigger weight in the index.

The biggest holdings in the ETF are in the packaging sector including SIG Combibloc which is an innovator in food and drink containers, O-I Glass which makes glass bottles, and pulp and paper manufacturer BillerudKorsnäs.

Pictet-Nutrition Fund (B54YLC1) invests in businesses contributing to, or profiting from, the agriculture value chain, including tractor maker Deere and US-listed agriculture machinery specialist AGCO, as well as food and drink groups Nestle and Danone.

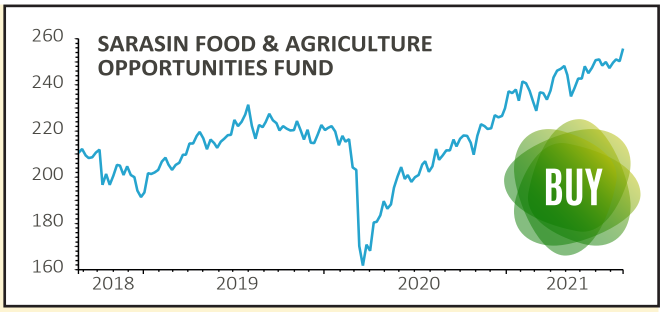
SHARES' TOP TWO PICKS

Sarasin Food & Agriculture Opportunities Fund (B77DTQ9)

One savvy way to play the powerful long-term themes impacting the global food economy is **Sarasin Food & Agriculture Opportunities Fund (B77DTQ9)**.

Manager Jeneiv Shah invests across the entire food and agriculture value chain and uses a thematic process to identify robust and enduring growth trends and the companies benefiting from them.

The fund offers exposure to four sub-themes: diet change, nutrition and dietary health – 'everything to do with this shift in our diets towards being less animal protein heavy and being a bit more balanced, so is not completely removing animal protein but moving towards plant-based proteins and cell-based agriculture', as well as food away from home, agricultural and farming technology and the online digitilisation of food.



In recent years, drivers of portfolio performance have included the likes of Deere and kitchen equipment maker Middleby, while the fund also has positions in online food delivery plays such as Ocado and **Just Eat Takeaway (JET)**.

Sarasin Food & Agriculture also invests in four names that provide ingredients or taste and texture capabilities – **Kerry (KYGA)**, Givaudan, International Flavors & Fragrances and Koninklijke DSM – which all have 'a growing share of their business that is providing expertise and capability to the likes of Beyond Meat, Impossible Foods, Monde Nissin (owner of Quorn) and others,' says Shah.

The fund has a 0.99% ongoing charge and has achieved 10.16% annualised returns over the past five years, according to Morningstar.

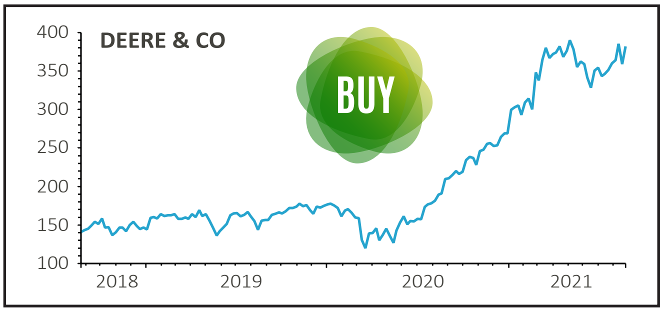
Deere & Co (DE:NYSE) $373.70

A high-quality name offering a play on the theme is New York-listed Deere & Co, the world's leading manufacturer of agricultural equipment famed for its iconic tractors.

Producing some of the most recognisable machines in the heavy machinery industry, the agricultural equipment giant plays a key role in the global food chain and helps farmers to increase yield while using less fertilisers and pesticides.

Morningstar says Deere has a wide economic moat and 'will continue to be a leader in the agriculture industry and one of the top players in construction'.

For over a century, the company has been the pre-eminent manufacturer of mission-critical agricultural equipment and its strong brand is underpinned by quality, extremely durable and efficient products. Customers in the farming



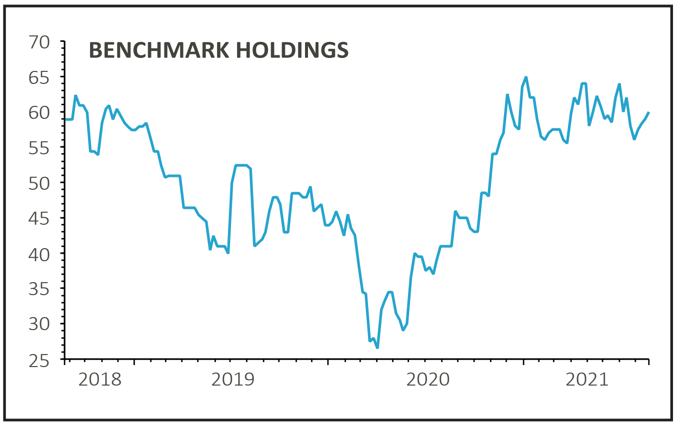
sector value Deere's ability to reduce the total cost of ownership.

Alongside strong third quarter earnings (20 Aug), Deere raised its full year earnings forecast to a $5.7 billion to $5.9 billion range with management expecting demand for farm and construction equipment to continue benefiting from favourable fundamentals.

Based on Refinitiv Eikon data, Deere trades on prospective price to earnings multiples of 16.9 and 15.7 for the years to October 2022 and 2023 respectively, ratios which look undemanding to our minds.

Benchmark Holdings (BMK:AIM) 60.44p

An investment idea for individuals with a higher appetite for risk



Global demand for salmon continues to grow at a healthy clip, and even increased during the pandemic with almost 2.7 million metric tons of Atlantic salmon produced last year. Aquaculture, or farmed fish, represents around three quarters of overall salmon production worldwide.

As well as being a good source of protein, which is important for building bones and preventing muscle loss, salmon contains omega-3 fatty acids which the body doesn't produce but are beneficial for our heart, joints and potentially our brains, with studies suggesting regular consumption reduces age-related memory loss.

However, there are few places in the world which have the right geographic conditions to support aquaculture. Salmon thrive in cold, deep water on sheltered coastlines, which is why production has historically centred on Scotland and Norway, and more recently Chile, which has become a major producer thanks to the fjords along its southern coast.

What was once a luxury food is now among the most popular fish with consumers in Europe, the US, Japan and increasingly China, meaning producers can't keep up with global demand.

Geographic and regulatory constraints on traditional open net-pen farming limit producers' ability to keep pace.

Another factor limiting sustainable production is the threat of disease. Salmon producers must manage the health of the fish, combatting parasites such as sea lice – which are more prevalent in farmed than wild salmon – and natural phenomena such as mass algal bloom, which sucks oxygen out of the water, killing the fish.

One UK company with solutions to many of these problems is **Benchmark Holdings (BMK:AIM)**, which operates through three divisions: genetics, advanced nutrition and health.

Using the latest genomic tools, the genetics business breeds salmon eggs for fish farmers, allowing them to produce better, healthier fish. It also breeds tilapia and shrimp broodstock, and accounts for just under 40% of group revenues.

The advanced nutrition business, which accounts for close to 60% of sales, produces early-stage nutrition, preventative health products and environmental solutions for the early stages of shrimp and fish production.

The health business, which accounts for 5% of sales, produces cutting-edge sea lice treatments which kill the pests without harming the environment and allow farmers to continue operating as normal.

Demand for the firm's products is growing fast with sales in the most recent quarter up 17%, led by the genetics business as capacity in Norway and Iceland sold out for the year.

Group gross margins are over 50%, which appeals, while earnings are growing faster than sales thanks to operational improvements and tight cost control.

Numis, which is the company's broker, has a 'buy' rating and believes the share price could hit 80p in the next year, calling it a structural growth story with strong sustainability credentials. It believes Benchmark will move into profit in the year to September 2022. [IC]

Why now isn't the right time to invest in Beyond Meat

Much as the pandemic failed to slow the flow of funds into 'responsible' investments, so it did little to impact sales of vegan products.

The global vegan market was worth around $15.4 billion last year, 20% more than in 2018, and is forecast to grow by just under 10% per year over the next five years.

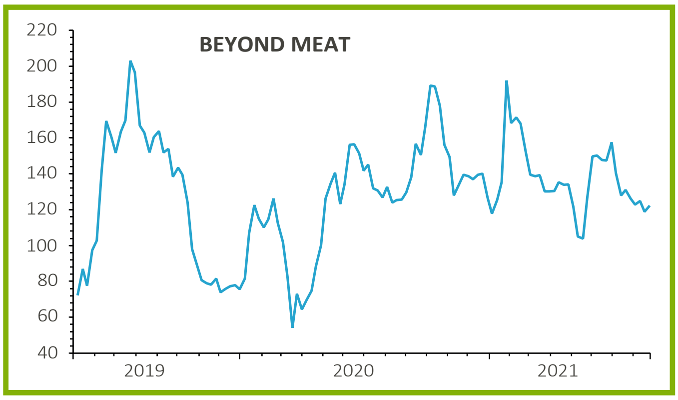
However, the real target for vegan food producers is to turn more of the world's meat eaters on to plant-based products. The global animal meat industry is worth $1.2 trillion per year and converting just a fraction of those sales would supercharge growth.

One of the first plant-based protein producers to come to market was Beyond Meat, which has made strong gains since listing in New York in 2019 at $25 and now trades around $125 per share.

One of the first plant-based protein producers to come to market was Beyond Meat, which has made strong gains since listing in New York in 2019 at $25 and now trades around $125 per share.

However, it has been a patchy last 12 months for investors. In November, the share price collapsed nearly 30% after the firm posted a third quarter loss of $19 million on weaker than expected revenues.

Gross margins shrivelled to 27% compared with 36% in the previous year as the company was forced to offer higher trade discounts to fight off growing competition, while inventories ballooned more than 50% due to weak demand.



In contrast, the shares soared 30% in January after the firm announced it had formed a joint venture with US soft drinks maker Pepsico, giving it access to the latter's distribution channels.

It also signed a three-year strategic global agreement with fast-food giant McDonald's to supply the co-developed McPlant product range and inked a multi-year partnership with Yum! Brands to co-create and offer plant-based protein menu items for Yum's KFC, Pizza Hut and Taco Bell chains.

Yet Beyond Meat's financial performance continues to disappoint. In February, it blamed 'continued challenges' in the foodservice industry for missing fourth quarter sales forecasts and posting a loss of $25 million.

This was followed in May by first quarter losses of $27 million, which it blamed on higher marketing costs and lower selling prices, and last month it posted a second quarter loss of almost $20 million which it topped off with a disappointing sales outlook for the third quarter.

Bulls of Beyond Meat believe the firm can grow its market share thanks to its superior innovation capabilities and broad product portfolio, while its global partnerships give it a strategic moat which underpins its long-term growth potential.

However, with no sign of an end to losses, and with increasing competition, supply chain issues and concerns over the Delta variant raising uncertainty over sales, we see no rush to own the shares. (IC)

Trust dividends more resilient in pandemic than headlines suggest

Average drop in payouts skewed by a few cutters with most trusts not letting income investors down

As companies rushed to cut or suspend dividends in the wake of the pandemic this had a knock-on effect on the investment trusts which held their shares.

Thanks to the ability to use revenue reserves to smooth out any volatility in dividend payments, there was a lag effect in place.

Between January and June 2021, payouts from investment trusts fell 3.1% to £891.9m, even though dividends from UK stocks were actually up 8% in the period which saw companies become more confident about paying cash to shareholders a year after the pandemic gripped the world.

REVENUE RESERVES

Investment trusts can hold back up to 15% of the income they receive from investee companies in any given year to build up revenue reserves. These can be drawn on in more difficult times to make up for any shortfalls in income from the firms in their portfolio.

The decline in investment trust dividends was the first since the second half of 2010, when dividend cuts that followed the global financial crisis filtered through.

NOT QUITE AS IT SEEMS

Research by broker Stifel shows the picture is more nuanced with this 3.1% *average* decline accounted for by a handful of cuts.

Stifel says: 'Averages can conceal a lot of things and the vast majority of trusts have maintained or increased dividends.'

It adds: 'If we look at individual trust dividend payments across the whole universe, it appears that the vast majority have at least maintained and, in many cases, increased their dividends.

> The vast majority of individual trust dividend payments have at least maintained and, in many cases, increased their dividends
> Stifel

'This is even the case for the UK equity income sector, where we would expect the worst declines, given UK plc dividends fell circa 40% last year, following suspensions and reductions.'

The three UK equity income trusts which did trim their dividends – **Edinburgh (EDIN)**, **Temple Bar (TMPL)** and **Troy Income & Growth (TIGT)** – all did so alongside a change of management and signalled their intention to grow their respective payouts from a new base.

Edinburgh was previously managed by Neil Woodford and subsequently his protégé Mark Barnett before asset manager Invesco was sacked by the trust's board in December 2019.

As well as restructuring the portfolio, the new manager Majedie Asset Management chief investment officer James de Uphaugh took the opportunity in the wake of Covid-19 to rebase the quarterly dividend at 6p from 6.4p per share with a plan to grow from there.

Temple Bar had been struggling for a while, with fund manager Alastair Mundy leaving in 2020, and the new managers

A selection of the highest-yielding trusts with covered dividends

Investment Trust	Dividend cover	Dividend yield (%)
Bluefield Solar Income Fund	1.5	6.4
Gore Street Energy Storage Fund	2.3	6.2
Premier Miton Global Renewables Trust	3.8	6.1
GCP Asset Backed Income Fund	1.2	6.0
TwentyFour Income Fund	3.9	5.7
Gresham House Energy Storage Fund	1.1	5.7
Sequoia Economic Infrastructure Income Fund	2.0	5.5
BMO UK High Income Trust	5.2	5.4
Invesco Bond Income Plus	1.2	5.4
Henderson Diversified Income Trust	2.6	5.1
Shires Income	5.2	4.7

Table: Shares magazine.
Source: SharePad, 25 August 2021

from RWC Asset Management unveiled plans for a 25% dividend cut.

Troy Income & Growth cut its quarterly dividend by nearly 30% as it reacted to the pandemic-related drop in income. While the mandate for the trust remains with Troy Asset Management, long-standing manager Francis Brooke announced plans to retire at the end of 2021.

The UK equity income sector saw 10 trusts increase their payouts in the first half of 2021, while eight left them unchanged.

It is therefore no surprise to see Stifel laud the trust space for its record on dividends through the pandemic. 'Overall, we think trusts have done a good job of delivering dividends, especially when compared to open-ended funds,' the broker says.

'The use of revenue reserves has been very helpful, although this has meant that dividends uncovered by revenue earnings per share, have effectively been maintained through the payment of capital or net asset value to shareholders.'

In other words, using revenue reserves to maintain dividend payments has the effect of reducing an investment trust's NAV. In turn, this can impact the discount or premium at which the shares trade.

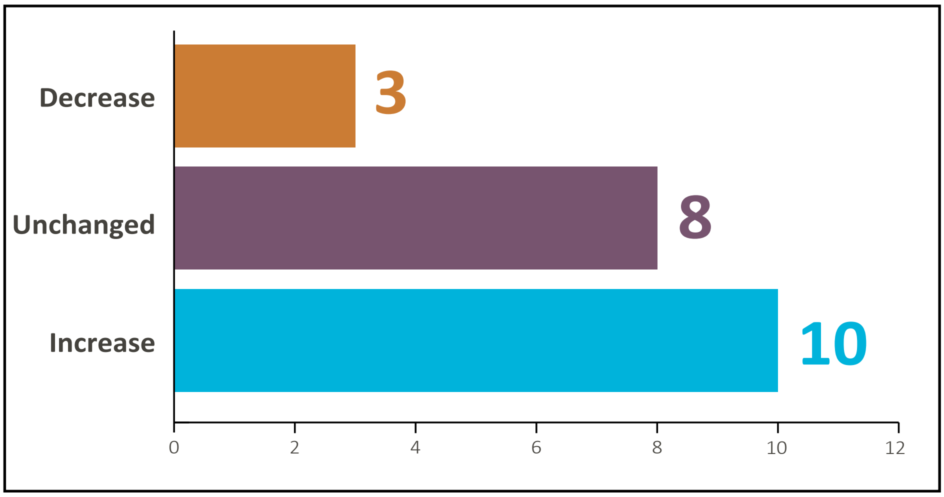
HIGHEST YIELDING TRUSTS

The table shows a selection of the highest yielding trusts with dividends covered at least once by income from their holdings, based on payments from the most recent set of full-year numbers and the share price at the time of writing.

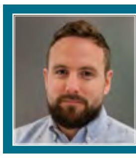
The list has a smattering of investors in infrastructure, particularly with a tilt towards renewables, where the income isn't coming from the equity markets, as well as vehicles which diversify their exposure by buying assets like bonds alongside stocks and shares.

A notable name in this grouping is **Shires Income (SHRS)** which despite being focused exclusively on equities, managed to navigate the dividend cuts resulting from the pandemic thanks to its focus on quality mid and large-cap companies, with dividends in its portfolio down 13%, just one third of the hit taken by the FTSE 350.

UK equity income trusts with dividend increases, decreases or no change in H1 2021



Source: Stifel, AIC, RNS. Report and accounts, interims



By **Tom Sieber**
Deputy Editor

Insightful commentary on market issues

DANNI HEWSON
AJ Bell Financial Analyst

Has Covid changed the world of work forever?

Looking at whether will be a return to the office or if a hybrid model here to stay

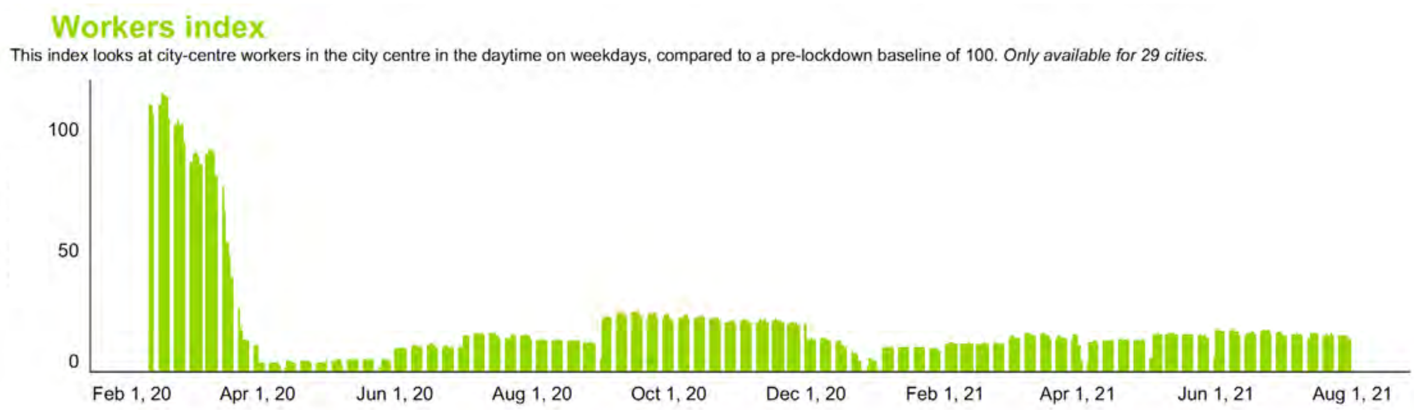
The start of the new school year is traditionally the time that offices, which languished half empty over the long summer holidays, are suddenly bustling with life. Lunch dates are made, career catch ups scheduled and goals recalibrated. Covid threw everything up in the air and everybody's watching to see where the pieces will eventually settle.

As of 19 July, the Government's work from home guidance has been withdrawn but unlike last year it's not been replaced with public calls for a swift return to the office. Businesses are being left to set their own agenda and many are in no hurry to issue that particular call now.

Perhaps it's the uncertainty of what the autumn might bring and how the Delta variant might feature. Perhaps it was the timing, coming just at the start of the summer holiday season but Freedom Day didn't spark the mass return of the white-collar worker.

In fact, company after company has been lining up to announce plans to embrace the hybrid work model on a permanent basis. Some, like **BP (BP.)** and KPMG have said they do expect employees to sit at their desks for at least a couple of days every week, others like Deloitte and most recently **Premier Foods (PFD)** have said people should make their own decision about where they work best.

CITY CENTRE WORKERS STILL SHUN THE OFFICE POST FREEDOM DAY



Source: Centre for Cities

DANNI HEWSON
AJ Bell Financial Analyst

Working arrangements broken down by industry

Industry	Mainly working from home, instead of where they were working before the pandemic (%)	Mainly working at the same place they were working before the pandemic (%)
Information and communication	77	20
Professional scientific and technical activities	62	35
Real estate activities	45	52
Education	42	52
Wholesale and retail trade; repair of motor vehicles and motorcycles	25	70
Other service activities	24	60
Construction	24	72
Administrative and support service activities	20	70
Manufacturing	19	72
Water supply; sewerage waste management and remediation activities	18	80
Human health and social work activities	17	80
Transportation and storage	14	74
Arts entertainment and recreation	14	71
Accommodation and food service activities	7	82
All industries	**27**	**65**

12 July to 25 July 2021

Source: Office for National Statistics • Created with Datawrapper

WHO WINS IN THE SWITCH TO HYBRID WORKING?

After years of half-finished discussions about the pros and cons of a flexible workforce the pandemic forced change and for many the change has been good. Employers are eyeing the potential savings they can make on building costs and many employees have found a new work life balance that they're loathed to give up.

There will be losers, not least businesses in our towns and cities that rely on office trade. With footfall repressed spend is a fragment of what it was before the first lockdown and it seems unlikely it will ever return to what it was. Investors would love a crystal ball, a glimpse into the future. Past performance can't quite oblige but it does give us an indication of how markets have sized up the direction of travel.

Cast your mind back to that first lockdown, the surreal full stop to everyday life. Very few businesses escaped a drubbing as people were told to shore up in their homes, only travelling if work was considered vital for the country to keep ticking over.

DANNI HEWSON
AJ Bell Financial Analyst

The winners and losers of the office shutdown

Company	% change since 31/1/20	% change since 1/5/20	% change since 19/7/21
Mitie	5.3%	91.6%	21.6%
SSP	−48.0%	20.8%	21.2%
Trainline	−27.5%	−8.2%	19.4%
Softcat	82.2%	87.4%	18.1%
Great Portland Estates	−17.3%	14.1%	8.0%
Restaurant Group	−8.8%	131.0%	7.6%
IWG	−33.5%	28.0%	−0.5%

Source: Sharepad • Created with Datawrapper

Streets were suddenly empty and share prices tumbled as investors adjusted their portfolios, seeking out growth in the few sectors that suddenly became very busy. IT infrastructure provider **Softcat (SCT)** helped firm after firm set up secure, cloud-based solutions so their business could continue from kitchen tables and bedrooms. Similarly, **Mitie (MTO)** kept essential workspaces clean and secure.

Homeworking was expected to be a blip, a temporary experiment that would be remembered fondly at the next Christmas bash. By May many investors were thinking ahead, which businesses would benefit from the return of the status quo, because that's exactly what most people expected; that the lockdown would lift, and normal service would be resumed.

Perhaps there was a spot of bargain hunting which helped turn around fortunes in shares of businesses that love office footfall like **SSP (SSPG)** and **The Restaurant Group (RTN)** and office providers from the traditional like **Great Portland Estates (GPOR)** to the flexible like **IWG (IWG)**.

MARKETS IN FLUX

Fast forward and post 'Freedom Day' and share prices hint at an investor in flux, believing the most likely scenario to be a semi return to what was. Long term leases and the need for businesses to bring their people together seems to suggest that the era of the bespoke office isn't over altogether, rent collections have been fairly resilient and in the short term many firms will be prevented from exploring the kind of flexible options offered by the likes of IWG.

There's plenty to work through and each decision will be watched and weighed, not only from within but also by competitors. What works, what's productive, what stifles and what inhibits new recruits from learning, from climbing the ladder. Can employers get away with paying less to workers desperate to avoid the commute?

Lockdowns changed things. Intel CEO Pat Gelsinger had it right – he said: 'If you have a little blip, people go back to the old way. Well, this ain't a blip.' But what's the new way and how much of the old way will drift back in? One thing that could change the soft slide backwards is another full stop, another lockdown, and it will be even harder to expound the benefits of the old.

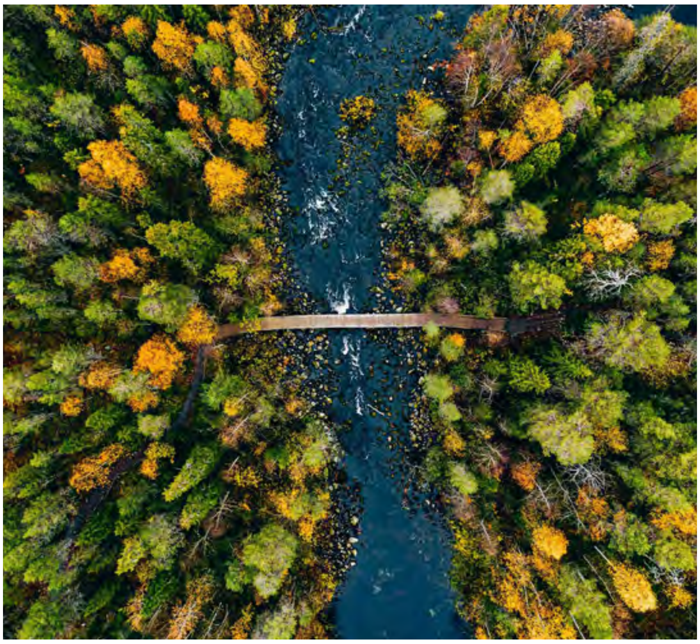
BlackRock.

THE EUROPEAN GREEN DEAL: WHEN MACROECONOMICS MATTER

BLACKROCK GREATER EUROPE INVESTMENT TRUST PLC

Macroeconomic factors do not normally play a significant role for stock pickers. However, says Stefan Gries, Co-Portfolio Manager on the BlackRock Greater Europe Investment Trust plc, the European Green Deal could be an exception, creating real opportunities across European markets.

Stefan Gries
Co-Manager, BlackRock Greater Europe Investment Trust plc



Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

A stock picking approach usually focuses on the qualities of individual companies, rather than the wider economic environment. However, occasionally, macroeconomic factors combine to create a uniquely favourable environment for certain sectors and companies, enabling them to deliver long-term resilient growth. We believe that the European Green Deal is one of these rare swing factors.

The EU has set a clear target to achieve carbon neutrality across the bloc by 2050, including tighter reduction in emissions by 2030[1]. The Green Deal has been created to facilitate this transition, mobilising €1 trillion over the next decade to tackle climate change[2]. Given its size and the very specific areas on which it is focused, we see it creating significant opportunities.

THE ‘GREEN RECOVERY’

The European Commission has four near-term priorities for the green recovery: the roll out of renewables; the renovation wave; green mobility; and kick-starting the hydrogen economy. For businesses involved in these fields, the combination of government backing, financial resources and favourable regulation should create a uniquely fertile environment for growth.

Many of these areas are slow burn. The US has front-loaded many of its stimulus measures, but the EU has instead chosen to drip-feed capital. This suits our long-term agenda. For example, the increase in the renovation rate will be staggered – at 1.2% from 2023 – 2025, rising to 2% per year in 2026 - 2029[3]. The renovation targets include tackling energy poverty, improving public buildings, such as educational, health care and administrative facilities, and decarbonising heating and cooling. We have found a number of companies likely to be significant beneficiaries, where the potential growth is not yet appreciated by the market.

On green mobility, an acceleration of electric vehicles is a necessity. This has consequences throughout the supply chain. For example, electric vehicles use around 5-6x the amount of semiconductor content. As investors, we need to understand whether we are at the beginning, middle or end of a sector’s business cycle. To our mind, this appears to be the beginning of a very long transition.

It should be said that the Green Deal does not automatically make specific companies attractive. Hydrogen, for example, is an early-stage energy and while it promises to be exciting, it doesn’t yet have a significant end market. There is no dilution of our usual quality control measures: ensuring companies have a capable management team, a strong franchise and a sustainable business model. However, it does ensure that a key criterion – the strength of the end market – is fulfilled.

BUILD BACK CLOSER

Europe also benefits more generally from a desire to relocate critical infrastructure and component manufacturing closer to home. The pandemic ruthlessly exposed the dangers of relying on Asian supply chains, particularly in areas such as chipmaking. Policymakers have realised that they need to build up domestic infrastructure and expertise. This can benefit individual companies because it can deliver policymaker support and draw in expertise.

These trends can also guide us on where not to invest. The decarbonisation of Europe will have its casualties. For example, it will be a headwind for some automobile groups that will need to invest billions in the transition to electric cars.

We are also wary on the price we pay. Where there are these significant initiatives, it is important to maintain discipline, finding not simply the areas that will grow, but where that growth is underappreciated by the market. That won't necessarily mean that a company is cheap, but it will mean that it is undervalued.

Occasionally, there are exceptional external forces that change the outlook for specific sectors and companies. The European Green Deal is a rare exception to our premise that macroeconomics doesn't matter for long-term success. It is likely to deliver some exceptional opportunities.

For more information on this Trust and how to access the opportunities presented by European markets, please visit www.blackrock.com/uk/brge

TO INVEST IN THIS TRUST CLICK HERE

[1]European Commission, January 2020

[2]Norton Rose Fulbright, April 2021

[3]European Commission, October 2020

Where to get the best returns on your cash

Examining the best rates whatever requirements you have

Cash savings rates have been resurgent in recent weeks after falling for more than a year. With inflation of 4% rumoured to be on the horizon by the end of the year, now is a good time to make sure your cash is working for you.

The UK as a whole saved a lot of spare cash during the pandemic, but for many that's just sitting dwindling in their bank account. For most this means it will be earning 0.01% interest, far below the target 2% rate of inflation and vastly below the 4% expected this year.

So what rates can you get and where?

I WANT EASY ACCESS…

The rates on easy-access accounts have lifted a little in recent weeks – you're still not going to get very much but it's much better than leaving it in your current account. The top rate of 0.65% comes from Tandem Bank, which allows anywhere from £1 to £250,000 to be saved but can only be opened via an app on your phone. The next best option is Cynergy Bank, which can be opened online and pays 0.6%. If you opted for the Tandem bank account and moved £10,000 from your current account (paying 0.01%) you'd go from earning £1 a year interest to £65 a year.

If you want an account you can open in branch, ICICI Bank is paying 0.5% and lets you do just that, although it only has a handful of branches around London. For another in-branch option it's worth checking out your local building society, as some offer competitive rates. Otherwise Virgin Money has branches across the UK and pays 0.35%.

Another option for those with a small amount to save is Virgin Money's current account, which is currently paying 2% interest, but only up to £1,000. You don't need to do a full current account switch (although if you do it is offering a £150 experience day gift card) and when you open the current account you can also access its easy-access savings account paying 0.35% (although this is less than the current top rate).

I DON'T MIND TYING MY MONEY UP FOR LONGER…

The fixed rate market is where competition has been hotting up, with banks raising their rates by 0.03 percentage points at a time just to oust their competitors from the top of the best buy tables.

At one year, the top rate is from SmartSave, which is paying 1.41% but the account must be opened with £10,000 and the maximum you can save is £85,000. The account is opened and managed online.

For those who want to save less than £10,000, Zopa has the next best rate, paying 1.4% on anything over £1,000 (up to £250,000).

If we compare this to the highest rate from a high-street bank, you can get 0.2% with Metro Bank – showing how much it pays to bank online.

At two years the best rate is from Zopa, paying 1.67%, again with a £1,000 minimum on the account. Or if you have less to save then Tandem Bank has the best rate, paying 1.57% and having a minimum investment of £1.

You get slightly more for locking away for three years, with 1.76% from Zopa, who has the best rate. While at five years there's another minimal increase to 1.81% (also from Zopa).

WHO ARE THESE BANKS I'VE NEVER HEARD OF?

Much of the competition in the savings market at the moment is coming from challenger banks or start-ups. This means many of the names will not be familiar to savers.

High-street banks, which are much more well-known names, are benefitting from people leaving money in their current accounts and so don't need to compete for your money by offering better interest rates.

However, these smaller, start-up banks are keen for your money and so are competing with each other by hiking their rates. The downside for some is that many of these banks only operate online, so there's no branch to go into.

All the banks mentioned in this article are FSCS protected, so the same level of compensation protection as a high-street bank, but this is something you always want to check when you're moving to a new provider who you might not have heard of before.

WHAT ABOUT PREMIUM BONDS?

Premium Bonds from NS&I don't have an interest rates, but instead you're entered into a prize draw with the chance of winning a number of tax-free prizes each month, from £25 up to £1 million. When savings rates were better it was likely better to lock in a guaranteed interest rate if you wanted to maximise the return on your savings.

However, as savings rates have fallen dramatically in the past year or so, Premium Bonds looked more attractive. NS&I works out the average chance of winning a prize and gives an effective interest rate for it, to serve as a comparison with savings accounts, and currently it's 1%. So if you want an easy-access account and want to take a bit of a gamble with the return you'll get, this could be an option.

> *Premium Bonds from NS&I don't have an interest rates, but instead you're entered into a prize draw with the chance of winning a number of tax-free prizes each month*

By **Laura Suter**
AJ Bell Head of Personal Finance

Janus Henderson INVESTORS

What is going on in China?

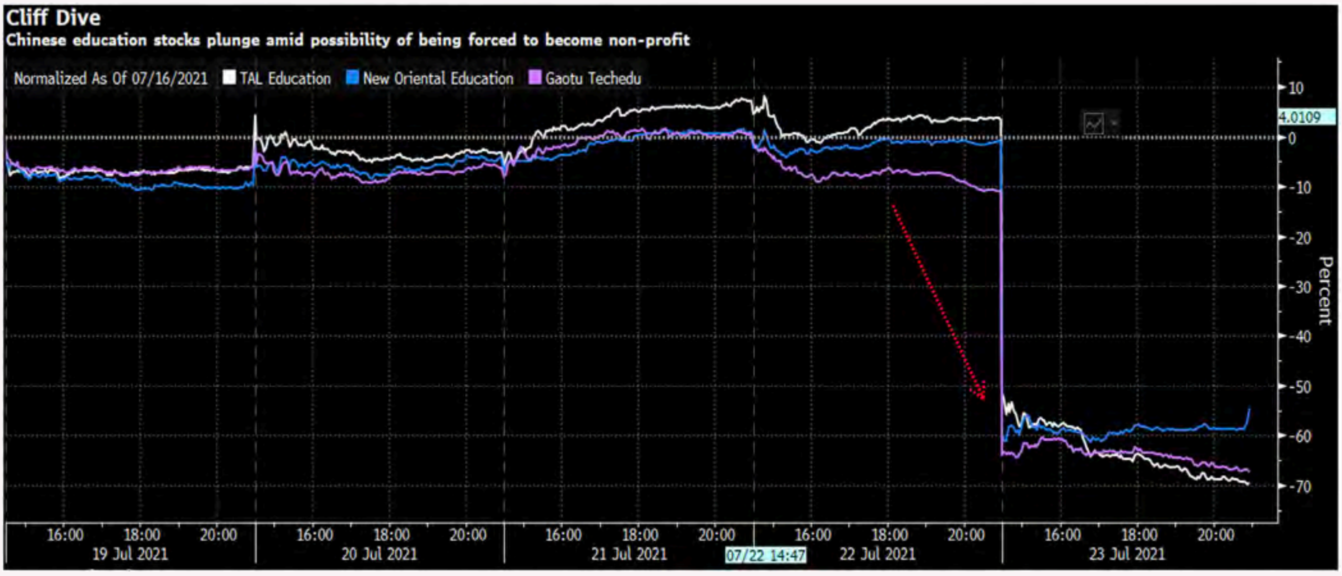
Synopsis
The recent regulatory clampdown in China has resulted in massive selloffs in some of the country's biggest stocks, leading some investors to question whether it is worth investing in the region. In this article, Mike Kerley, Fund Manager of Henderson Far East Income, discusses the recent regulatory clampdown - highlighting the key drivers behind some of the regulation, its impact on the trust and where the opportunities lie going forward.

Since the suspension of Ant Group's blockbuster IPO last year, Beijing has embarked on an unprecedented clampdown of its technology sector. The natural progression to this was when Alibaba was hit with a record anti-trust fine of 18 billion yuan in April for supposedly abusing its market dominance.[1] More recently, however, the regulatory clampdown has intensified, causing a sell-off in those sectors deemed "socially sensitive" and leading many to question whether it is worth investing in China.

In July, the government opened a cybersecurity review into ride-hailing company Didi two days after the company went public in New York, stepping up scrutiny after earlier criticism of the company's handling of customer information. Regulators also ordered Didi to remove some of its apps from platforms in China, which the company said would hurt revenues, and subsequently sent the shares falling by 30%. Three weeks later, the government abruptly barred tutoring companies

from making profits, a move which triggered a nearly $1 trillion global sell-off and sent shares of online private tutoring companies Tal Education and New Oriental Education and Technology, plummeting by 70.8% and 54.2%, respectively.[2]

More recently, the casualties have included online gaming and social media company Tencent - Asia's largest stock by market value - after the Chinese state media described games as "spiritual opium" and "electronic drugs". Rivals NetEase and Nexon Co were also caught in the storm, with investors already on edge after Beijing came down hard on online industries from e-commerce to ride-hailing apps.



[3]Source: Bloomberg, as at 23 July 2021

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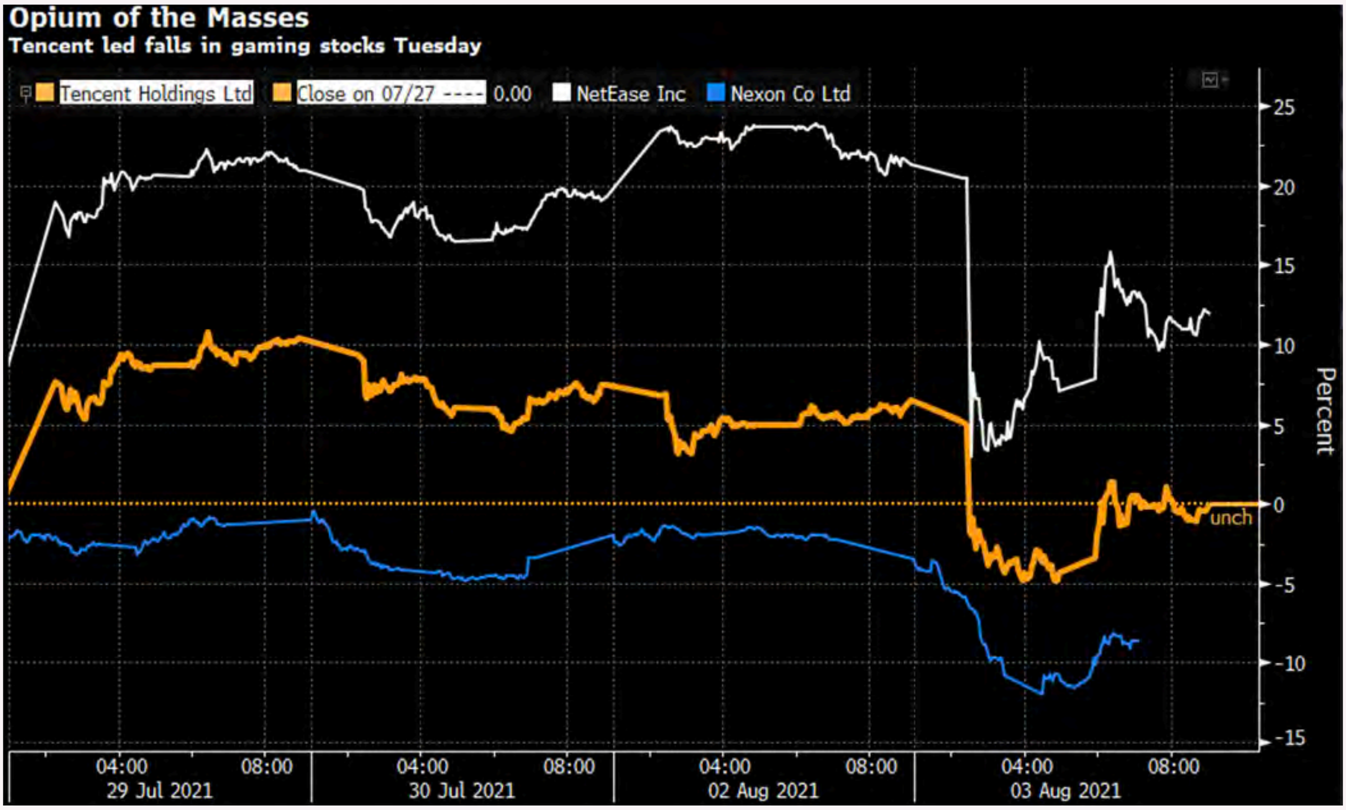


[4]Source: Bloomberg, as at 3 August 2021

On the surface, China's crackdown has been interpreted by some investors as a clash between the government and private businesses. The reality, however, is more complicated. China's government is looking to level the playing field and reduce widespread inequality, which is reflected in the areas that have seen increased levels of regulation.

Firstly, the Chinese internet platforms have grown rapidly over the last few years, partly due to the lax regulatory environment. This has resulted in some businesses gaining unfair competitive advantages, and we have even seen some exhibit monopolistic characteristics. Therefore, the new regulation aims to address the regulatory loopholes that some businesses have exploited to promote fair competition, sustainable growth and ultimately level the playing field. To look at this as a 'crackdown' on private companies, some might say, is a misunderstanding of the government's plan.

Secondly, after declaring that it had eradicated poverty, China has turned its focus towards "common prosperity," which has led to increased regulation in areas with crucial social welfare implications, such as healthcare, education, and property. For many residents in the larger cities, their lives have become riddled with anxieties' that belie the broader sense of progress - from seemingly unattainable home prices to the pressure of securing the best education for their children and coveted places at leading universities. Therefore, the recent ban on tutoring and compulsory education, intensified regulation in the real estate market, and the broader coverage of social security and the health care system are all trying to address the top concerns of the average family in China. We have also seen steps towards improving safety and labour rights for delivery workers.

What does this mean for investors?

The measures undertaken are not a huge surprise considering the well-documented goals of the Chinese government. Perhaps what may have caught some investors off guard is the scale and the timing of the regulation - an order from on high has been jumped upon by regulators and acted upon without coordination or thought for the consequences. That being said, it was only a matter of time before the internet sector became so large that it started impinging on the powers of the state. At the same time, excess levels of profitability in core areas such as education, healthcare, and property would only be tolerated for so long.

The Henderson Far East Income has circa 17% exposure to China, considerably below the index weight of 30%.[5] We do not own Chinese property, education, health care, or the major internet

platforms, which have been the areas most affected by the recent regulatory clampdowns. We do own NetEase, the gaming company which has been affected by the current regulation, however we believe the market response in this area is overdone The focus on the gaming sector is centred on minors and the time spent online by under 18 year olds. Both Tencent and NetEase have brought in strict measures to limit time spent by young people on games and to monitor online behaviour, which are much broader than those applied in the western world. The 20% fall in the share price appears out of kilter with the 2% of company revenue deriving from purchases by under 18's.

We do not think these measures impact the number of opportunities in China, however, these opportunities are now different. Paying high multiples for structural sectors with high margins and strict regulatory oversight is fraught with danger, but there are other opportunities in areas that fit in with government aims and goals at much more attractive valuation points. The latest five-year plan clearly outlines areas where the government is focusing and investing around these themes makes the most sense to us. Clear targets have been set in terms of localisation (avoiding reliance on US imports) and improvements to the environment while a focus on reducing inequality should be good for trends in low to middle income consumption. An ageing population and shrinking workforce will prompt innovation around working practices involving greater automation, while industrial innovation will be encouraged and supported. In our view, the opportunities lay mainly with the enablers of the transition rather than the frontline players or platforms. For us, that is the software and components in China, materials elsewhere, and consumer discretionary, focusing on low to middle income spend.

Does this change our investment case for China?

Taking a longer-term view, this doesn't change our outlook for China as the long-term structural trends remain intact. It is the second-largest economy in the world and is forecast to grow by 8.1% in 2021, compared to 4.6% growth in Europe and 7.0% growth for both the UK and US.[6] It remains the region's growth engine, and the emerging middle class is becoming an ever-larger local market for goods and services, as the exponential profit growth of relative newcomers like Alibaba illustrates. China is also experiencing

[1]Source: Reuters, 10.04.2021: China fines Alibaba record $2.75 bln for anti-monopoly violations
[2]Source: CNBC, 23.07.2021: Another group of U.S.-listed Chinese stocks plunge as Beijing regulators crack down
[3]Source: Bloomberg, 23.07.2021
[4]Source: Bloomberg, 3.08.2021
[5]Source: Janus Henderson, 13.08.2021
[6]Source: International Monetary Fund, World Economic Outlook, July 2021
[7]Source: Henderson Far East Income Annual Report, 2020

Janus Henderson INVESTORS

rapid infrastructure development, technology advancement (much of it homegrown), and rapid adoption and integration into the wider Asian region with a combined population of 4.5 billion, which is estimated to contain 66% of the world's middle class in 10 years.[7] This is a reality that is difficult to ignore for many investors.

There is no doubt that the new regulations have got the market spooked. However, comments that China is now uninvestable, in our view, are wide of the mark. Of course, there will be uncertainty in the short-to-medium term, but this will pass as people go back to looking at companies and not government policy. We suspect that earnings revisions will be weak in the coming months as analysts adjust margin expectations. However, the baseline is that revenue should continue to grow commensurate with an economy with high single-digit nominal GDP growth, and hence opportunities will most likely continue to present themselves.

GLOSSARY TERMS

Gross domestic product (GDP) – The value of all finished goods and services produced by a country, within a specific time period (usually quarterly or annually). It is usually expressed as a percentage comparison to a previous time period and is a broad measure of a country's overall economic activity.

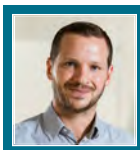
IPO – Initial public offering; when shares in a private company are offered to the public for the first time.

Monopoly – A monopoly refers to when a company and its product offerings dominate a sector or industry. The term monopoly is often used to describe an entity that has total or near-total control of a market.

How can I protect myself against a wealth tax?

Our expert discusses whether a prospective new levy should affect your thinking

How can I protect my money if the Government introduces a wealth tax? I've worked hard and saved all my life – how can it be fair for politicians to come after people who have done the right thing?
Tom



Tom Selby
AJ Bell Senior Analyst says:

It's important to kick off with a bit of context. While there have been stories in the press, at no point has the Government said it wants to impose a wealth tax on UK citizens.

Rather, this is part of the ongoing debate about how the Treasury pays the costs associated with Coronavirus, which have already run into the hundreds of billions of pounds.

Because there is no proposal it is impossible to say with any confidence what, if anything, you could do to protect your assets from a wealth tax. It's fair to assume if the Government did go down this route, it would be careful to design the tax in such a way that large scale avoidance would be difficult.

WHAT COULD A WEALTH TAX LOOK LIKE?

If a wealth tax were to be introduced, it could take various different forms. For example, policymakers may want to make it as wide-ranging as possible, covering everything from people's property to their retirement assets.

Alternatively, certain forms of wealth could be exempted from the levy – although clearly this would reduce the amount of money the Chancellor would be able to raise.

The Wealth Tax Commission – which consists of a group of economists and academics – sketched out how much money a wealth tax could potentially deliver to the Exchequer.

After accounting for non-compliance and administration costs, the Commission estimates a one-off wealth tax payable on all assets over £500,000 and charged at 1% a year for five years could raise a staggering £260 billion.

Alternatively, setting the threshold at £2 million could bolster the Treasury's coffers to the tune of £80 billion.

The Commission says other ways to get £260 billion include:

- Increasing all rates of income tax by 6p
- Increasing all rates of VAT by 6p
- Increasing corporation tax by 5p and VAT by 4p

IS A WEALTH TAX THE 'RIGHT' THING TO DO?

This is a question that goes beyond the remit of a column principally aimed at helping people with pensions and retirement problems.

However, you can understand why – IF the Government believes it needs to raise hundreds of billions of pounds to recoup the costs associated with Covid – it could be attractive.

In particular, because the Conservative manifesto pledged not to increase VAT or income tax rates, the Government may feel like it was one of only a few options open to it (assuming it wants to stick to that manifesto pledge).

In terms of your own finances, it's best to avoid letting speculation about a tax that may or may not happen cloud your thinking.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

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

The best UK chemicals stocks to buy now

This sector trades at a premium valuation reflecting its focus on higher margin niche areas

Constituents of the UK chemicals sector span both a wide range of market capitalisations and end markets.

These include aerospace, automotive, coatings, semiconductors, sports and leisure and the global flavour and fragrance industries. The largest company in the UK chemicals sector, **Croda (CRDA)** has a market capitalization of £12.6 billion, this contrasts with AIM-quoted **Biome Technologies (BIOM:AIM)**, the smallest company in the sector that has a market value of just £14 million.

For this universe of stocks, we believe **Synthomer (SYNT)** and **Croda (CRDA)** are the most attractive plays with exciting growth stories investors should look to get involved in.

Both companies have benefited significantly from the Covid pandemic, albeit in very different ways and we think the advances they have made will outlast the pandemic.

Synthomer has seen continued high demand for nitrile gloves, which are used extensively in hospitals and other segments of the medical sector, due to their high strength and superior puncture resistance.

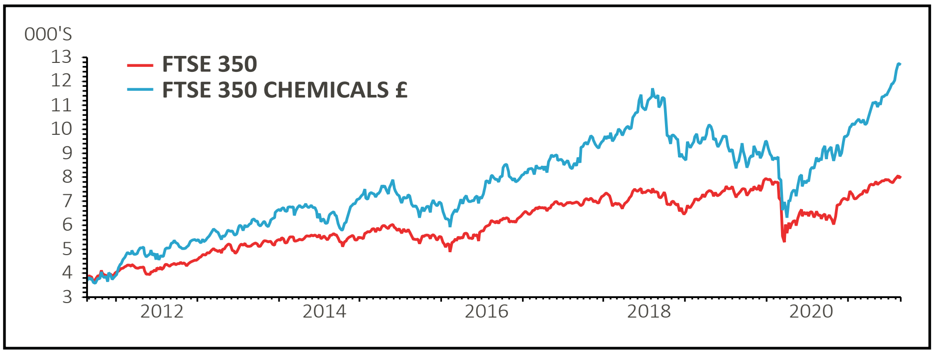
Croda supplies lipids for one of the most exciting areas of modern medicine being mRNA technology. There is considerable growth opportunity in lipid systems as adoption widens from Covid-19 to other vaccine and gene therapies.

A QUALITY SECTOR

Chemicals companies are often perceived as having their fortunes tied to the economy and movements in commodity prices which affect their input costs. However, most of the UK-listed contingent operate and, in some cases, specific market niches which means they are effectively 'speciality' chemical firms.

This means for the most part they are higher margin, cash generative and less at the mercy of fluctuations in domestic, regional and global GDP. Their performance has been strong with the FTSE 350 Chemicals index comfortably outperforming the wider market.

This is less the case for the smaller chemicals firms on AIM, the majority of which are not



MAIN MARKET CONSTITUENTS OF THE UK CHEMICALS SECTOR

Croda (CRDA)
Market cap: £12.8 billion
Share price: £91.87

Elementis (ELM)
Market cap: £855 million
Share price: 147p

Johnson Matthey (JMAT)
Market cap: £5.75 billion
Share price: £29.75

Synthomer (SYNT)
Market cap: £2.3 billion
Share price: 543p

Victrex (VCT)
Market cap: £2.3 billion
Share price: £26.73

Treatt (TET)
Market cap: £671 million
Share price: £11.26

Zotefoams (ZTF)
Market cap: £220 million
Share price: 453p

yet profitable and are therefore more speculative plays.

This also means they trade at premium valuations. Based on forecast data from SharePad the average price to earnings ratio for the sector based on the latest reported numbers is 35. However, in the case of Synthomer and Croda we think their valuations are more than justified by the potential on offer.

The market has repeatedly underestimated Synthomer's ability to deliver earnings growth ahead of expectations.

On 19 July Synthomer raised its 2021 EBITDA (earnings before interest, tax, depreciation and amortisation) guidance to above £500 million from previously above £450 million.

Significantly this marked the fourth successive earnings upgrade. There are three reasons to believe that the group will continue to benefit from super normal profits from its nitrile production.

First, there will continued strong demand from the direct and indirect impacts emanating from the pandemic, as healthcare workers demand greater protection.

Second, longer-term nitrile margins are likely to remain robust, even if they drop a little from the peak levels associated with the pandemic. According to Canaccord Genuity unit margins in nitrile that have averaged €150-€230 per tonne on an EBITDA basis over the past eight years will peak about €600 a tonne this year before moving back to €240 by 2024.

Third, the nitrile market is evolving into a duopoly market structure with production being dominated by Synthomer and South Korean multinational chemicals company Kumho Petrochemical. Moreover the nitrile market is considerably larger which will mitigate the impact of incremental capacity increases.

Recent earnings upgrades have been broad-based and have included not only nitrile (gloves), but also sales into paints and coatings. Moving forward the rest of the group is likely to benefit from the strong demand from coatings, DIY and the coatings market.

BUY **SYNTHOMER (SYNT) 543P** **BUY**

What it does: Synthomer is a UK listed specialty chemicals company with four divisions.

1. Performance Elastomers supplies nitrile latex to glove manufacturers and styrene butadiene into paper, foam and carpet applications.
2. Functional Solutions supplies aqueous polymers into coatings, adhesives, construction and technical textiles.
3. Industrial specialties supplies specialty chemicals and additives into PVC and polymer manufacture, construction, and automotive applications.
4. Acrylate monomers supplies acrylate monomers to the Functional Solutions segment and external customers.

M&A OPPORTUNITY.

Synthomer has £1 billion of potential firepower excluding equity issuance. The new incoming CEO Michael Willome has a good track record of M&A at Swiss industrial conglomerate Conzetta. Management have repeatedly highlighted acquisitions as a means of creating value. The balance sheet looks in good shape with a net debt to EBITDA ratio of just 0.4 times so there is clearly scope for further deals in the future.

VALUATION

Synthomer is inexpensive trading on a 2021 enterprise value (EV) to EBITDA of 6.1 times versus peers and specialty chemicals at 9.3 times EV/EBITDA. The group has a strong free cash flow yield of 14.7% for 2021, versus 6.3% for cyclical chemical peers. It is worth bearing in mind that Synthomer's valuation looks very cheap based on forecasts for the current year because of the strong nitrile demand which most analysts are forecasting to moderate in 2022 and beyond as we emerge from the pandemic.

EPS BY YEAR

2020	28.8p
2021	70.6p
2022	50.5p
2023	45.8p

Source: Refinitiv

CRODA (CRDA) £91.78

BUY

What it does: Leading supplier of chemicals based on natural ingredients.Major supplier of ingredients for the beauty-care, homecare, healthcare and industrial markets. Key company characteristics are the large number of products, and the wide spread of customers. The company has a preference for direct sales rather than using distributors and there is a wide employee ownership of the company shares.

Acrylate monomers supplies acrylate monomers to the Functional Solutions segment and external customers.

There are a finite number of companies worldwide that are able to produce custom lipids (lipids are molecules that contain hydrocarbons that make up the building blocks of the structure and function of living cells), in significant quantities and which conform to the high quality requirements outlined for vaccine production.

LIFE SCIENCE POTENTIAL

Only four major CDMO's (contract development and manufacturing operations), currently produce lipids used in the Pfizer/Biotech and Moderna Covid 19 vaccine.

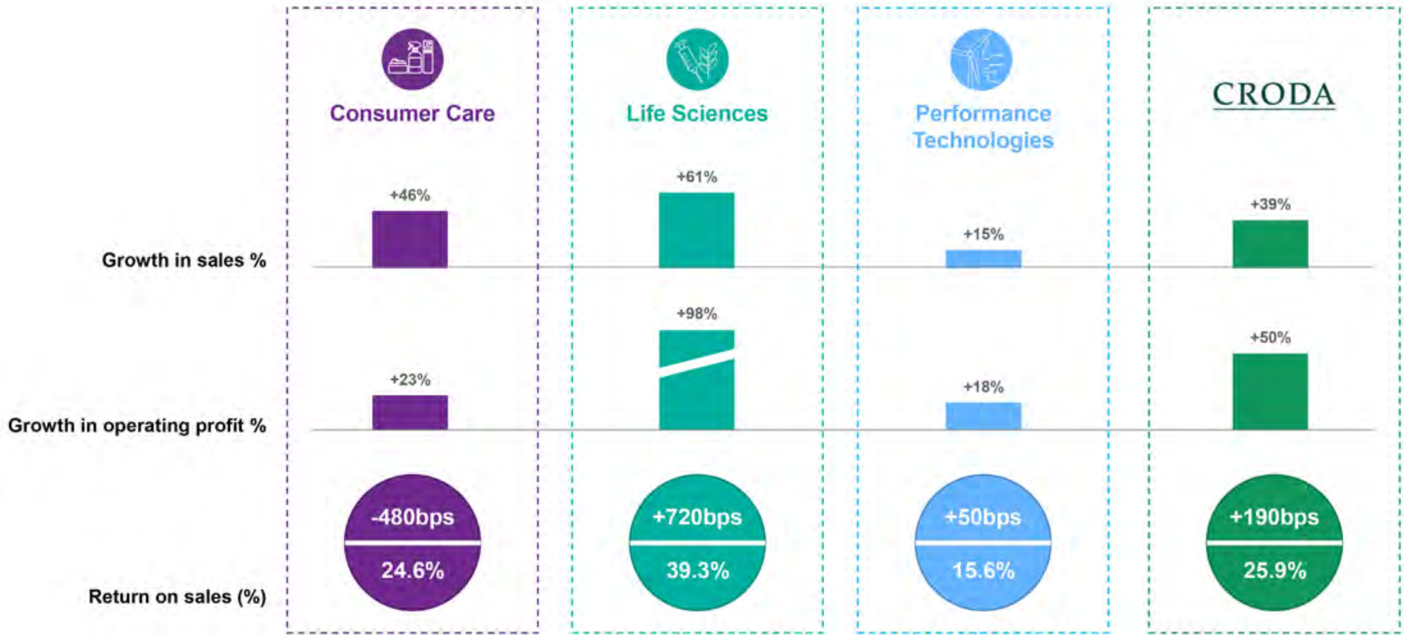
Pfizer has a five year non-exclusive supply agreement for lipid systems with Croda. In response to robust demand the group is making significant investments in its lipid production capacity. It intends to double the capacity of its American site, while quadrupling the capacity of its UK site. Croda have emphasised that they don't regard competition within lipid production as a significant threat, given that the industry is very much in its infancy.

A GAME CHANGING OPPORTUNITY

After a decade of research mRna technology can unleash the immune system's ability to fight disease to an unprecedented extent. The human body uses mRna code carrying molecules made naturally in our cells to produce the instructions for life. By harvesting mRna it is possible to teach cells to make the proteins to fight disease.

The trick is getting the

CRODA H1 2021: GROWTH ACROSS ALL SECTORS



Source: Croda

instructions into the cells, because as incredible as these messages are they are also incredibly delicate. The breakthrough needed was the development of Lipid Nanoparticles. LNPs or lipid nanoparticles are tiny fatty droplets that carry mRNA safely like a shipping container, only one hundred thousandth of a centimetre in size, and surrounds mRNA forming a protective shell for their journey to our cells. As soon as LNP accomplish their mission they dissolve and disappear.

Croda has emphasised that it is involved in 60 other projects that focused on Covid 19 vaccine and therapeutic treatments. Croda is supporting 25 Covid-19 projects in relation to lipid systems.

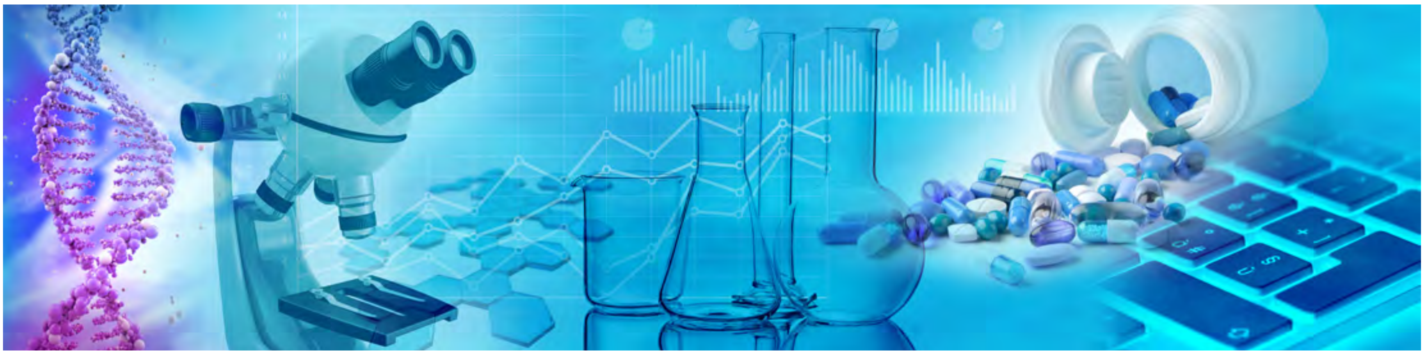
Overall there are over 200 lipid products that are in Phase 1, 2 or 3 clinical trials, the majority of which relate to oncology drugs. The pipeline of mRNA therapeutics in clinical trial address a wide number of indications including Alzheimer's disease, Parkinson's disease, cystic fibrosis and diabetes.

VALUATION IS REASSURINGLY EXPENSIVE

Croda is far from cheap, trading on a 2021 EV/EBITDA of 21.4 times, an all-time absolute valuation high. However there have been a series of recent broker earnings upgrades. These have been predicated on two factors. First, further reopening and margin upside in Consumer Care. Second, further upside in Life Sciences from both Covid and non-Covid opportunities in patient health.

Liberum chemicals analyst Adam Collins recently increased his 2021 earnings forecast by 20%, as well as 'outer year forecasts in Life Sciences'.

By **Mark Gardner**
Senior Reporter



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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full-year results

3 Sep: European Opportunities Trust, Allergy Therapeutics. **6 Sep:** Dechra Pharmaceuticals, Sylvania Platinum. **7 Sep:** Alumasc, McBride. **8 Sep:** Dunelm, Mattioli Woods. **9 Sep:** Genus, Go-Ahead. **10 Sep:** Ashmore.

Half-year results

3 Sep: Eurocell. **6 Sep:** Vector Capital. **7 Sep:** Lamprell, Luceco, Parsley Box, Vistry, Midwich, Michelmersh Brick, Flowtech Fluidpower, Bango, DP Eurasia. **8 Sep:** Somero Enterprises, Gamma Communications, Impact Healthcare REIT, Bakkavor, Pebble Beach, Inspecs. **9 Sep:** Cairn Homes, Destiny Pharma, Burford Capital, EMIS, STV, Computacenter, Morrison Supermarkets, Oakley Capital, International Public Partnerships, Energean, Spire Healthcare, Funding Circle, Jadestone Energy.

Trading updates

7 Sep: Safestore, Ted Baker. **8 Sep:** Biffa.

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Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.
Company Registration No: 3733852.