BRIEFING *P11*
How Britain wastes money on defence

TRADING *P24*
Should you bet on remote healthcare?

PLUS
Morgan's charming new model
CARS *P30*

MoneyWeek

MAKE IT, KEEP IT, SPEND IT

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Money for nothing?

How outsourcing can bring big gains for governments and investors

Page 18

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Britain's best-selling financial magazine

From the editor-in-chief...

How much will you leave your children? Our virtue-signalling celebrities say increasingly "not much". Daniel Craig is the latest one to say that he finds the whole idea of inheritance "distasteful" and to suggest his children won't be getting much of his (pretty large) fortune (see page 32). I get this. Too much money too early can prevent the young finding a purpose in life – and giving most of your money away to those in rather more need than your own children seems a perfectly reasonable idea. But there is a difference between the Craigs of the world and the rest of us – and much of that difference lies in the definition of "not much". The very rich want their children to start life not too spoilt. Most of us just want ours to have a little financial security. How?

One obvious way is to make sure that what you do have for them is working as hard as it can. A good friend recently told me how pleased she had been when she handed her son the proceeds of his Child Trust Fund (CTFs) turned Junior Isa (Jisa). She has piled it all into an investment trust we suggested many years ago and he turned out to have more than four times as much as his mates to spend in the pub when he emerged from his A levels (yes, this is a risk…).

Why four times? Because his friends' parents had mostly kept the free money they got for their CTFs in cash. For 18 years.

Start saving now, and you might be able to afford one

©Alamy

"Children have a long investment horizon – they don't have to spend it all in the pub at 18"

This is not a niche problem. Numbers from wealth manager Quilter suggest that since 2011, under-18s with Jisas who have had them held in cash have missed out on more than £1.2bn in returns relative to those who have invested them (and that's assuming a generous 2% return on cash). Real money.

Markets are not cheap at the moment – and there is good reason to stay out of the most pricey ones (see page 21 for why to avoid the US). But children have a long investment time frame (they do not have to withdraw the money at 18 and they do not have to spend it in the pub), so even with some valuation risk factored in, there is no reason to stay out altogether. Think about emerging markets – up a mere 25% over the last decade, see page 4 – for those who might be in for the long term. Otherwise, on page 18 Jonathan Compton looks at the investment opportunities in outsourcing and on page 13 John looks at the end of the dividend drought (it really didn't last very long). Get this right and your children will thank you, particularly if they were planning to use the cash to follow the well-trodden route of finding a second-hand Volkswagen Polo to take to university. Thanks to the global semi-conductor chip shortage (which holds up new car production, see page 15), used car prices are rising at an annual rate of 14%. Those Polos are gold dust.

One odd little codicil to the inheritance story comes from Hargreaves Lansdown: 10% of those surveyed who said they were loath to leave money to their children gave their reason as "I don't want them to be waiting for me to die". Some families are clearly more dysfunctional than others. But for those worried about this, it might make sense to hand over money a little earlier than you might have – £3,000 a year can go to them with no inheritance tax (IHT) implications, as can gifts from your income that don't affect your own standard of living. But offer your offspring larger lump sums and you will need to survive seven years for them to avoid IHT completely. That should change the dynamic nicely – in your favour.

Merryn Somerset Webb
editor@moneyweek.com

A rotten result for Johnny

Songs by 1970s punk band the Sex Pistols can be used in an upcoming TV series being made about the group's rise to fame, despite the opposition of frontman **John Lydon** (pictured), a British judge has ruled, reports the Associated Press. The judge said that an agreement made with fellow pistols Steve Jones (the guitarist) and Paul Cook (the drummer) in 1998, allowed the decision to be made by a majority vote, meaning the pair could overrule Lydon's objections to the licensing of the band's hits.

Pistol – which is based on guitarist Jones' 2016 memoir of the band – is being made for Disney subsidiary FX and directed by Danny Boyle, the acclaimed director of *Trainspotting*. Lydon apparently has concerns that the new documentary drama will depict him in a negative light.

Cover illustration: Adam Stower. Photos: Getty Images; Morgan; Teladoc

Good week for:

Wine drinkers in the UK could benefit from government plans to cut red tape, shaving 10p off the cost of every bottle imported, says Joe Mayes for Bloomberg. The "VI-1" certificate – previously only required for imports from non-EU countries – was set to be extended to EU wine. However, it will now be scrapped altogether, which could save wine importers an estimated £100m a year, according to The Wine and Spirit Trade Association.

Britain's tourism industry is reaping the benefits of a boom in domestic holidays – the cost of holiday accommodation soared by an average of 41% this summer versus 2019, says Joshua Thurston in The Times. Consumer group Which found that a week's stay in Italy's Lake Garda this month would have cost a quarter of its equivalent in the Lake District.

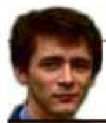
Bad week for:

Property tycoon Shaun Collins has been ordered to pay ex-partner Nicola Oberman £1.4m, after he promised a share of his future earnings to her in 1997 via a love letter written from prison, where he was serving a six-month jail sentence for false accounting, says Jonathan Ames in The Times. Collins pledged to make her a partner in his planned property empire, and on release, went on to build a multi-million pound portfolio of more than 40 properties. The pair never married, but had two children before splitting up in 2015.

Commuters could be facing a near-5% rise in rail fares next year, says Philip Georgiadis in the Financial Times. Annual price rises for regulated fares are based on the retail price index (RPI) for July each year. Last year ministers used RPI plus 1%. This year's July RPI came in at 3.8% which would make next year's rise "the biggest in a decade", which passenger groups argue will put staff off returning to the office post-pandemic.

©Getty Images; iStockphotos

Commodities can't lift emerging markets



Alex Rankine
Markets editor

Russia may benefit from a commodities recovery

©Getty Images

"When commodities prices go up, so do emerging market stocks," says Jonathan Wheatley in the Financial Times. That has been the emerging-market investor's playbook for decades. No longer. The MSCI Emerging Markets (EM) index has fallen about 2% so far this year, even as the prices of metals, grains and fuel have soared. That caps a decade of disappointment. The index has gained 25% since the start of 2010, while the developed market equivalent has more than doubled over the same period.

Once the preserve of Latin American commodity producers, today three-quarters of the MSCI EM is made up of Asian countries that largely import raw materials. Chinese stocks alone account for more than one-third of the index. Hence developments in that country have been the "key driver" of this year's slump, says Thomas Mathews of Capital Economics. A regulatory crackdown on some of China's most profitable listed companies has generated market turmoil. What's more, "economic growth has slowed by more than many expected". That doesn't just mean dimmer prospects for China's own companies. It has also caused the recent pullback in the prices of many commodities, which is bad news for the commodity-exporting countries that still make up the long tail of the MSCI EM.

A tranquil taper

Despite that, emerging economies are already feeling the inflationary heat, says The Economist. In Brazil, prices are 9% higher than they were a year ago; inflation recently topped 6% in India. Policymakers are taking no chances. From Mexico to Russia to Peru, central banks have hiked interest rates. That may hit short-term growth, but higher rates could also stand them in good stead later on. There is much concern that tighter US monetary policy could spark a "taper tantrum" later this year: higher interest rates in America typically cause investors to pull funds out of emerging markets. Yet these economies have proved resilient during the pandemic, thanks to a "more robust policy framework" and larger foreign-exchange reserves than in the past.

Emerging value

"Emerging-market stocks are lagging behind those in the US by the biggest margin in two decades," says Nir Kaissar on Bloomberg. You have to go back to the aftermath of the Asian financial crisis in the late 1990s to find the last time they underperformed so badly. Yet that period was followed by excellent performance between 2000 and 2007. This time the signs are similarly encouraging. The expected dividend yield in emerging markets is 3%, twice the US figure. On 12 times forecast earnings, the MSCI EM is much cheaper than the S&P 500's rating of 20 times.

Analysts are tipping Russia, South Africa and financial stocks in central eastern Europe as "likely beneficiaries of global economic recovery", says Reshma Kapadia in Barron's. They are less positive about much of Asia. Such "divergent views for different segments of emerging markets" are a reminder that it is now "a large and unwieldy investment category".

Oil goes off the boil

Low prices prevent oil producers investing in new capacity

©Getty Images

The oil-price rally has gone off the boil. Optimism at the re-opening of economies around the world saw Brent crude gain 50% between the start of the year and early July to trade at $77 a barrel. There was even talk of prices returning to $100 a barrel for the first time since 2014. Instead, the market has had anything but a hot summer. Last week oil prices suffered seven successive days of price falls, to a low of just above $65 a barrel. That was Brent crude's worst losing streak since 2018. A recovery early this week saw Brent crude trade back up at around $70 a barrel, still down almost 8% since early July.

A stronger US dollar has played a role in the decline, says Navneet Damani on CNBCTV18. Oil, like most commodities, is consumed globally but priced in US dollars and so prices tend to weaken when the dollar is strong. This came on top of fears that the delta variant of Covid-19 would sap demand. From lockdowns in Australia to sluggish air travel, the virus is still sapping global demand for fuel. The end of the US driving season – a period of higher demand for petrol – is also bearish.

The International Energy Agency has cut its forecasts for global demand and now expects that total demand for 2021 will be 96.2 million barrels per day (mbpd), still some way short of the pre-pandemic level of roughly 100mbpd. Still, markets perked up at the start of this week, says Avi Salzman in Barron's, as Brent crude rose more than 7%. Traders were reassured by data suggesting that China has got its latest Covid-19 outbreak under control. Delta should prove "a transient event to oil demand", says Jeffrey Currie of Goldman Sachs. He thinks Brent crude could hit $80 a barrel in the fourth quarter as "producers are investing too little in new projects today to catch up to future growth".

Bitcoin shrugs off $600m heist

Bitcoin has hit $50,000 for the first time since May. The cryptocurrency reached an all-time high above $64,000 in April before plunging below $30,000 last month. This latest rebound follows a Chinese crackdown on bitcoin miners that sent the market into the doldrums, says Joanna Ossinger on Bloomberg. Now there are signs of a recovery. "The hash rate – a measure of the computational power being put toward the bitcoin network – has… rebounded from early-July lows." Rising back above $50,000 "has excited the crypto faithful", who are once again talking about the coin heading towards $100,000.

The latest rally came after payments system PayPal said it will allow British customers to buy and sell cryptocurrencies. The announcement was taken as a sign that the sector is becoming mainstream, which may broaden the user base and boost prices in the long term.

Yet crypto remains the Wild West of financial markets. Last week "an anonymous hacker... stole the equivalent of more than $600m" from Poly Network, a platform that facilitates transactions between cryptocurrencies, says Martin Vander Weyer in The Spectator. In a strange turn of events, he or she then gave most of it back. "The scale of the raid and the fact that no regulator has jurisdiction over the parties involved ought to give crypto investors pause for thought … Yet the world of crypto is so unreal … that the Poly story is reported as a mere curiosity."

Delta derails recovery story

Thailand: Covid-19 is keeping the tourists away

©Getty Images

"There are, suddenly, a few holes in the easy recovery story," says Nils Pratley in The Guardian. While recent company results have been excellent "on both sides of the Atlantic", there's a feeling that we have passed "peak optimism". After the "whoosh of recovery", the "potential for pleasant surprises looks limited" while the risks grow.

As inflation rips through global supply chains, there are signs that the re-opening boom is losing momentum – especially in America, where surging cases of the Delta variant of Covid-19 seem to be frightening American consumers. US retail sales fell by 1.1% month-on-month in July. The University of Michigan measure of consumer sentiment has recorded its lowest reading since 2011, while the IHS Markit measure of service activity has registered its lowest reading in eight months. Economists at Goldman Sachs have slashed their third-quarter growth forecasts from 9% to 5.5%. "We see a significant slowdown in growth and elevated inflation which to many people will be… something like stagflation-lite," Steen Jakobsen of Saxo Bank tells The Daily Telegraph.

Delta may rattle the Fed

The US Federal Reserve has been debating when to scale back its $120bn a month programme of asset purchases, says Justin Lahart in The Wall Street Journal. Some policymakers are keen to start this process of tapering as soon as next month. Yet Delta "has proved more pernicious" than they were expecting. Fears that "the pandemic could worsen before it gets better" mean that monetary tightening might be delayed yet again.

All this "Delta distress" is surprising, says John Authers on Bloomberg. Most executives still sound very optimistic about demand, which some call "exceptional". Yes, American hospitals are being hit harder by the latest wave than those in the UK or Europe. But while Delta is extremely contagious, it doesn't seem able to "do anything like the damage that the first waves wrought on the global economy" thanks to widespread vaccination and better treatments. Some traders spy "a buying opportunity".

Asia underperforms

It's a different story in less-well vaccinated regions, says Jada Nagumo in Nikkei Asia. Japan has extended its state of emergency into September. Other countries face much worse. In Thailand, just 8% of the population is fully jabbed and the critical tourism industry is hurting. The Thai baht hit its lowest level against the dollar in three years earlier this month.

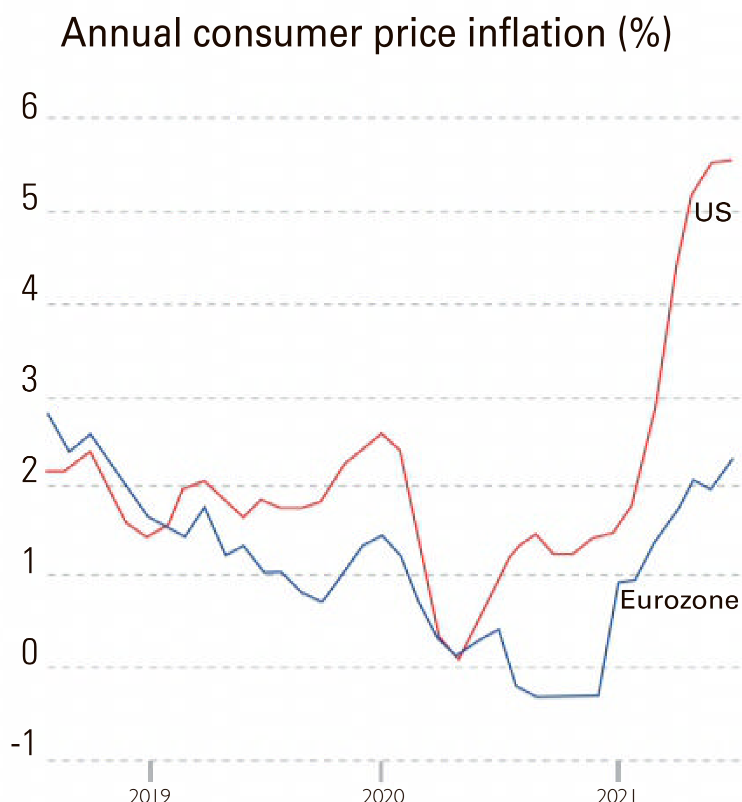
So while Western markets continue to rise, the MSCI All Country Asia has dropped over 8% since the start of the third quarter. Asia isn't necessarily heading for a crash, but maybe "a dull period while investors nervously follow vaccination, infection and hospitalisation rates" is now in prospect.

Viewpoint

"Recent years have seen an explosion of... unicorns, startups with pre-IPO [initial public offering] valuations larger than $1bn... [many] have been losing money year after year... In both 2020 and the first quarter of 2021, half of the 76 publicly traded unicorns had losses greater than 20% of revenues and one-fourth had losses greater than 40%... Airbnb's losses were more than 100%. Nonetheless, many of these stocks are investor favourites... optimists might argue that Amazon became profitable after a decade of losses, so why can't others?...[yet] several unicorns have vastly exceeded Amazon's peak cumulative losses of $3bn... Most are far older than ten years... and the cumulative losses … continue to rise with no turnaround in sight...it will be extremely difficult for most to dig themselves out of their deep holes... the market doesn't seem to care."

Jeffrey Funk and Gary Smith, MarketWatch

US inflation accelerates



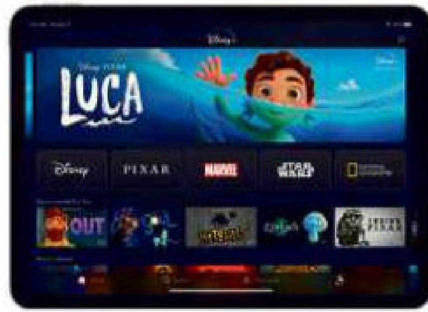
Inflation in the US and the eurozone has diverged over the past year. Eurozone prices rose by 2.2% year-on-year in July, much less than the 5.4% year-on-year recorded in the US in the same month. What explains this gulf? Some economists point to different pandemic policy responses, says Jon Sindreu in The Wall Street Journal: the US has been particularly generous with fiscal stimulus and reopened earlier than much of Europe, giving price pressures more time to take root. Yet more than half of the transatlantic inflation gap can be explained by statistical differences. Used-car prices and housing costs, two highly inflationary areas, make up a bigger part of the basket used to calculate inflation in America than in Europe.

MoneyWeek's comprehensive guide to this week's share tips

Six to buy

Jefferies Financial Group
Barron's
Jefferies is not the first investment bank to come to mind when you think of Wall Street. But it's a well-managed company, increasingly able to take on bigger and better-known rivals. It has a larger market share than Barclays and Credit Suisse and may benefit from European banks pulling back from US capital markets. Analysts expect the capital-markets environment to be "stronger for longer" and Jefferies looks poised to benefit from the trend. *$35.39*

Genuit
Investors' Chronicle
Plastic-piping producer Genuit has seen increased earnings due to the residential housing boom. Profits were £183.8m in the first half of 2021, up 63.7% from 2020 and 17.8% from 2019. Rising input cost pressures are "the only fly in the ointment", but the firm has been good at passing the inflation onto customers. It predicts demand for commercial work will stay below 2019 levels for the next two years, but remains bullish on its prospects, partly thanks to its HS2 contract. *686p*

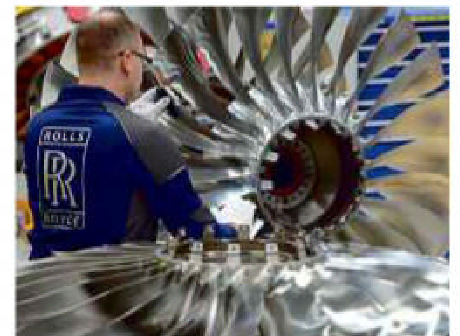


Disney
Shares
Disney's earnings were better than expected for the first quarter and revenue stood at $17.02bn for the three months ending 3 July, a 45% increase year-on-year. Its streaming service, Disney+, now has 116 million paid subscribers, ahead of analysts' expectations of 114.5 million. Covid-19 restrictions are lifting, which will allow for the reopening of its theme parks and resorts. These are highly profitable operations that also strengthen its connection with customers, cementing its position as "the world's leading entertainment company". *$179.09*

Poolbeg Pharma
The Mail on Sunday
Firms spent £1.2trn looking for treatments for cancer, diabetes and heart disease between 2010 and 2020. Now, in light of the coronavirus pandemic, more attention is being directed towards infectious diseases. Poolbeg Pharma is developing a product aimed at severe cases of flu and similar diseases – potentially even Covid-19. Early-stage trials around its treatment have "genuine potential" and it has other products in the pipeline that it's hoping to develop and monetise quickly and cheaply. A young biotech firm is not for the cautious, but it could "prove an exciting investment for the adventurous investor". *9p*

Rolls-Royce
The Sunday Telegraph
Rolls-Royce had to spend "colossal sums" on its aircraft-engine business before any money was recouped. The firm "started from nothing… now it can take a breath and start to make a return". It loses money when it sells an engine, but gradually makes it back through long-term service agreements. Revenue collapsed during the pandemic, but this will recover as long-haul travel picks up. Weak demand for new engines – aircraft makers have no plans to develop new planes – means it's no longer throwing money at development. This will tilt the firm away from "loss-making supply and towards profitable maintenance". Shares are 70% lower than they were two years ago, which presents an opportunity. *110.16p*

Ibstock
The Sunday Times
Building-materials prices have rocketed due to supply-chain disruption and Brexit-related delays. Ibstock, a brick and concrete-materials maker, is "critical" to the construction market, but its shares have only gained 13% this year compared with the sector's 23% rally. Rising freight and labour costs are a problem, but it was good at coping during the crisis by cutting overheads, which should help with higher profit margins "long after we've all stopped talking about Covid-19, Brexit and the HGV crisis". *234.40p*.



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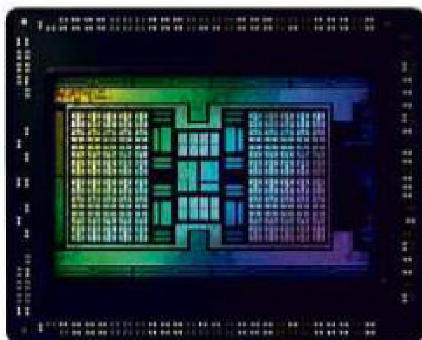


The Daily Telegraph
Semiconductor firm **AMD** has developed a cluster of smaller chips that work together to achieve what traditional microprocessors do on their own. This innovation is promising and could see it take a bigger share of the market. Buy *($107.56)*. Insurance firm **Legal & General** posted a 14% rise in operating profits. The firm is in the "business of long-term savings", and so is well positioned to meet the emerging middle classes' desire for "a more secure life". Hold *(262p)*.

Investors' Chronicle
Analysts expect a "hefty increase" in full-year cash profits at miner **Hochschild**. Buy *(155p)*. Promotional merchandise firm **4imprint** struggled during the pandemic, but it's on the way to matching its 2019 trading levels. The interim dividend resumed at 15 cents per share. Hold *(3,070p)*.

Shares
Gold has "lost a lot of its shine" lately, but **Wheaton Precious Metals** delivered "a modest beat to expectations". The firm buys precious-metal production in projects where it's a by-product to other metals, which allows it to secure deals at a discount. Revenue and cash flow hit record highs of $655m and $449m respectively, which boosted the second-quarter dividend to $0.15 per share, the fourth quarterly dividend increase in a row. Buy *(£31.78)*.

The Mail on Sunday
Prospects for insurer **Aviva** seem brighter than they have in a while, with strong interim results and plans to return cash to investors. This year's dividend is forecast to be 22.05p, rising to 25.36p in 2022. The chairman has been buying shares – "almost always a positive sign". Buy *(418.60p)*.

An American view

Drug development is expensive and spending millions developing a product that generates zero sales is common, says The Wall Street Journal. Royalty Pharma offers a lower-risk way to invest in the sector. The firm helps fund clinical trials for promising new drugs in return for a share of the drug's revenue in the three years after it reaches the market. Royalty Pharma is able to fund new investments with debt, which it can borrow at "rock-bottom" interest rates, and "cash coming in the door". In 2020 it spent $2.4bn on new deals and took in $1.8bn in cash receipts. The stock is up 37% since it floated in June 2020, but has sold off 19% over the last six months. Take advantage of the bout of pessimism.

IPO watch

Richard Branson's Virgin Orbit, which provides an airborne launch platform for small satellites, is going public in the US through a merger with a special purpose acquisition company (Spac), says Reuters. The firm, which is led by former Boeing executive Dan Hart, won a $35m US Space Force contract in 2020, and achieved its first successful launch of ten miniaturised Nasa satellites in January 2021. It hopes to profit from the growth of the compact satellite industry. The deal, which values Virgin Orbit at $3.2bn, is expected to raise a total of $483m in funding for the firm, including $100m of investment from aeroplane maker Boeing and other industry investors.

©AMD; Disney+; Rolls-Royce

City talk

● "Good news is so infrequent at Marks & Spencer that one can understand the excitement among shareholders at a rare patch of strong trading," says Ben Marlow in The Daily Telegraph. Shares surged 14% after the firm said that profits are likely to beat previous estimates. Chairman Archie Norman and CEO Steve Rowe are "quietly cock-a-hoop" about a tie-up with Ocado that they think will "transform its online offering" and there are even signs the "perennially-troubled clothing arm is turning a corner". After "two long decades" characterised by "repeated profit warnings, costly restructurings and damaging writedowns", this looks like the beginning of a "long-overdue recovery".

● Stephen Hester used to say that his job at RBS was to "defuse the biggest time bomb ever put on a bank's balance sheet", says Alistair Osborne in the The Times. As the new easyJet chairman, it'll be "defusing Mount Stelios when he's about to go off". The airline's founder Stelios Haji-Ioannou still owns just over 25% of the shares and tried to oust several of the board last year. Since easyJet needs to raise more equity to get through the pandemic, the "smart thing" is to do a rights issue and hope Haji-Ioannou won't participate so that he gets "diluted to below the 25% where he can block special resolutions. It could make Hester's life easier."

● Mining group BHP has tired of its "clunky dual-headed" Anglo-Australian corporate structure, says Nils Pratley in The Guardian. It plans to unify as an Australian firm with a primary listing in Sydney. The shares will still be traded in the UK, but will exit the FTSE 100. That's a blow for London, but makes sense for BHP. And the UK market "is hardly underweight in large mining stocks. It can probably afford to take this one on the chin."

©Alamy; Marks & Spencer; Nvidia

Supermarkets in the spotlight

Markets are speculating about a bid for Sainsbury's, while Morrisons' investors clearly expect a higher offer. Matthew Partridge reports

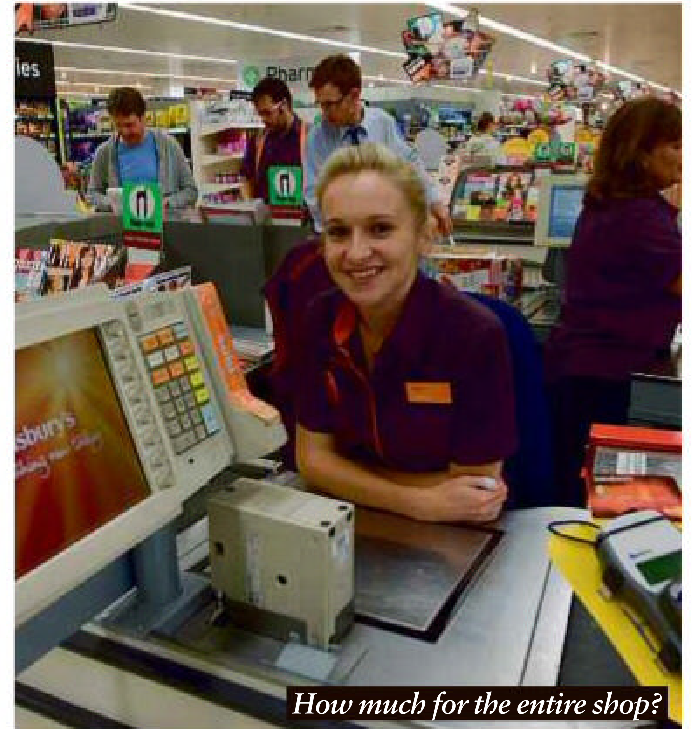
Shares in Sainsbury's reached levels not seen since February 2014 this week, after reports that the supermarket chain "could be the latest UK company to receive a buyout bid from a private equity firm", says Joanna Partridge in The Guardian. The group is seen as the "next potential target for foreign private-equity cash" after the recent bidding war for Morrisons "drew investors' attention to the larger UK supermarket chains". In particular, there are rumours that US buyout firm Apollo is "scouting for targets in the industry" after missing out on Asda last year.

Not so fast, says Mark Shapland in the Daily Mail. Many analysts have been quick to "pour cold water over a possible deal" for Sainsbury's, pointing out that Apollo remains interested in Morrisons, "which is being fought over by [Clayton Dubilier & Rice] and Fortress". Apollo is still eager "to join forces with Fortress and form a consortium for the supermarket". In any case, a deal for Sainsbury's could also be "complicated", as it has several big long-term shareholders and convincing them that the company should go private "would not be straightforward".

No smoke without fire

There seems to be "little in the way of substance to the report just yet", agrees Edward Devlin in The Grocer. Still, "there is no smoke without fire": even if Apollo doesn't table a bid, there is a "long line" of other potential suitors with "mountains of dry powder" who have "supermarket assets on the shopping list". The market is now alive to the fact that "even the very biggest businesses are in play", as these companies are "reliable cash cows throwing off millions of pounds every year", with "large property estates" just waiting to be unlocked.

Indeed, even the Morrisons saga may have further to run, says Ashley Armstrong in The Times. Despite the board backing a 285p per share bid from Clayton Dubilier & Rice, Fortress "has until about 20 September to come back with an offer before a shareholder vote in early October". Given this, investors in Morrisons are "gearing up for another round of takeover bids" with the share price now above the latest offer, which was already at a 60% premium to where they were before the first approach. If Fortress comes back with a bigger bid, then the Takeover Panel could force the process into an auction.



How much for the entire shop?

The process has dragged on so much that the Morrisons board might seriously consider calling for an auction sooner, says George Hay on Breakingviews. While such a move might seem "against its price-maximising interests" it could ensure that the deal isn't scuppered by "buyer regret". Already the price has gone so high that Clayton Dubilier & Rice are looking at an internal rate of return far "below the 20% buyout firms aim for". If the deal ends up collapsing, shareholders could find that the value of their shares is doubly hit, by both the collapse of the offer and by the fact that its managers have spent months "obsessing over M&A".

Nvida's bid for Arm hits a setback

US technology firm Nvidia has suffered a setback in its bid to buy British chip designer Arm from Japanese conglomerate Softbank after the UK Competition and Markets Authority (CMA) said the $40bn deal "raises serious competition concerns", prompting it to launch an "in-depth investigation", says Mark Sweney in the Guardian. The CMA has said that the takeover could reduce competition in the semiconductor market, "pushing up prices of products ranging from cars and games consoles to mobile phones and datacentres".

A CMA investigation is not Nvidia's only problem: it is already "facing several problems with regulators", says Ron Amadeo on Ars Technica. Britain is also worried about "national security concerns" given the use of Arm's chips in a variety of sensitive equipment. And China – which must also approve the deal since Arm has a subsidiary in the country – will not be in any hurry to nod it through, since this "would represent even more US control over the smartphone and wider technology market".

Nvidia CEO Jensen Huang

The fact that the deal has become "politically charged" has drastically cut the chances of it going ahead, says Richard Waters in the Financial Times. Nvidia's executives still insist that regulators will ultimately "recognise the benefits of the acquisition", but they accept that the deal is "unlikely to be completed within the 18-month period" that they originally estimated. All these problems have led to speculation that SoftBank "may eventually opt for a stockmarket listing for Arm, rather than try to press on with a full sale".

Washington DC

Budget blueprint passed: The US House of Representatives narrowly passed a "budget blueprint" on Tuesday for a $3.5trn package of healthcare, education and climate change spending, says The Wall Street Journal. The 220-212 vote, which followed party lines, unlocks a process known as "reconciliation" that allows the Democratic Party to pass the spending package in the Senate without opposition Republican support, so long as all 50 Democratic senators back it. However, in a set-back for the party leadership, "centrists", who "balked" at approving the budget framework, forced House speaker Nancy Pelosi (pictured) to concede to a vote on the separate $1trn package of infrastructure spending by 27 September. "Progressives" worry that if the infrastructure bill is already passed, their more-moderate counterparts will have less reason to support the $3.5trn budget package, along with its expected tax increases. So the party is now under greater pressure to wrap up the budget package quickly. Meanwhile, the Treasury is to enact "emergency measures" to conserve cash following the reimposition on 1 August of the national debt ceiling that had been suspended. Once these are exhausted, payments on debt obligations could be missed, which would trigger a default on US debt.

London

Quality-mark deadline extended: British businesses are being granted a "major concession" by the UK government, which has agreed to prolong the deadline for them to adopt a new UK Conformity Assessed (UKCA) safety and quality mark for their goods after Brexit, says the Financial Times. The one-year extension means UK products will be able to keep using the EU's CE safety mark, after firms warned that they wouldn't be able to shift from EU certification by the end of 2021, as had been planned post-Brexit. The concession will give "vital breathing space" to UK manufacturers, which had flagged the risks to the British supply chain if they could not continue using products made overseas. Companies will have until January 2023 to apply for the new UKCA mark, which will be granted by British based-authorising bodies. The government cited the pandemic as a hindrance to businesses preparing for the change, adding the new process had caused a backlog of applications for key components. The effect of staff and material shortages is already showing: Britain's post-lockdown economic rebound slowed to a six-month low, says Reuters. The IHS Markit/CIPS flash composite PMI for August dropped to 55.3 from 59.2 in July. The pace was slightly above pre-pandemic levels, but IHS Markit said there were clear signs of the recovery losing momentum.

Gulf of Mexico

Deadly fire cuts oil output: At least five workers were killed and six injured in a fire last Sunday on an offshore platform in the southern Gulf of Mexico operated by Petroleos Mexicanos (Pemex) that cut about a quarter of Mexico's oil production, says Reuters. The blaze broke out as maintenance work was being undertaken on the platform. With the platform out of action, 125 oil wells were taken offline and around 420,000 barrels per day (bpd) of oil production were suspended, according to Pemex's boss Octavio Romero. Pemex has a "chequered record on security", says Reuters, with dozens of workers killed in major incidents in the past. But this is one of the most serious under the current government of President Andrés Manuel López Obrador. Pemex's total crude production was 1.69 million bpd in June. Separately, government-implemented controls on the price of liquefied petroleum gas, used in homes and businesses, helped to counter rising food prices in curbing inflation to its slowest pace since March, says Bloomberg. Consumer prices rose 5.58% in the first half of August from a year earlier, down from 5.86% in late July. And Hurricane Grace left at least eight people dead in the Gulf Coast state of Veracruz early last Saturday, where strong winds caused flooding, mudslides and power cuts.

The way we live now: the rise of video-game coaching

E-sports (competitive playing of video games) now draw annual global audiences of 450 million – and the constant demand for new gaming talent to satisfy fans is creating a new industry of video-game coaching, reports The Guardian. Websites such as Legionfarm, Gamersensei and Proguides match young, upcoming players with experienced professionals who can review performance footage and give tips and tricks on how to improve. The cost depends on the skill level and prestige of the coach: one pro player called Dicey offers a 30-minute seminar on how to succeed in e-sports for $30, but a spectator game with him costs $120 for 60 minutes and a "bootcamp" aimed at getting the customer to the highest rank possible costs $500. Fabio Dores, who is among Legionfarm's top 20 pros, says he makes around $3,500 a month from around 80 hours of coaching. Players can pre-book regular sessions with preferred trainers and the truly committed can pay monthly subscriptions, "like joining a gym".

E-sports: not just a game anymore

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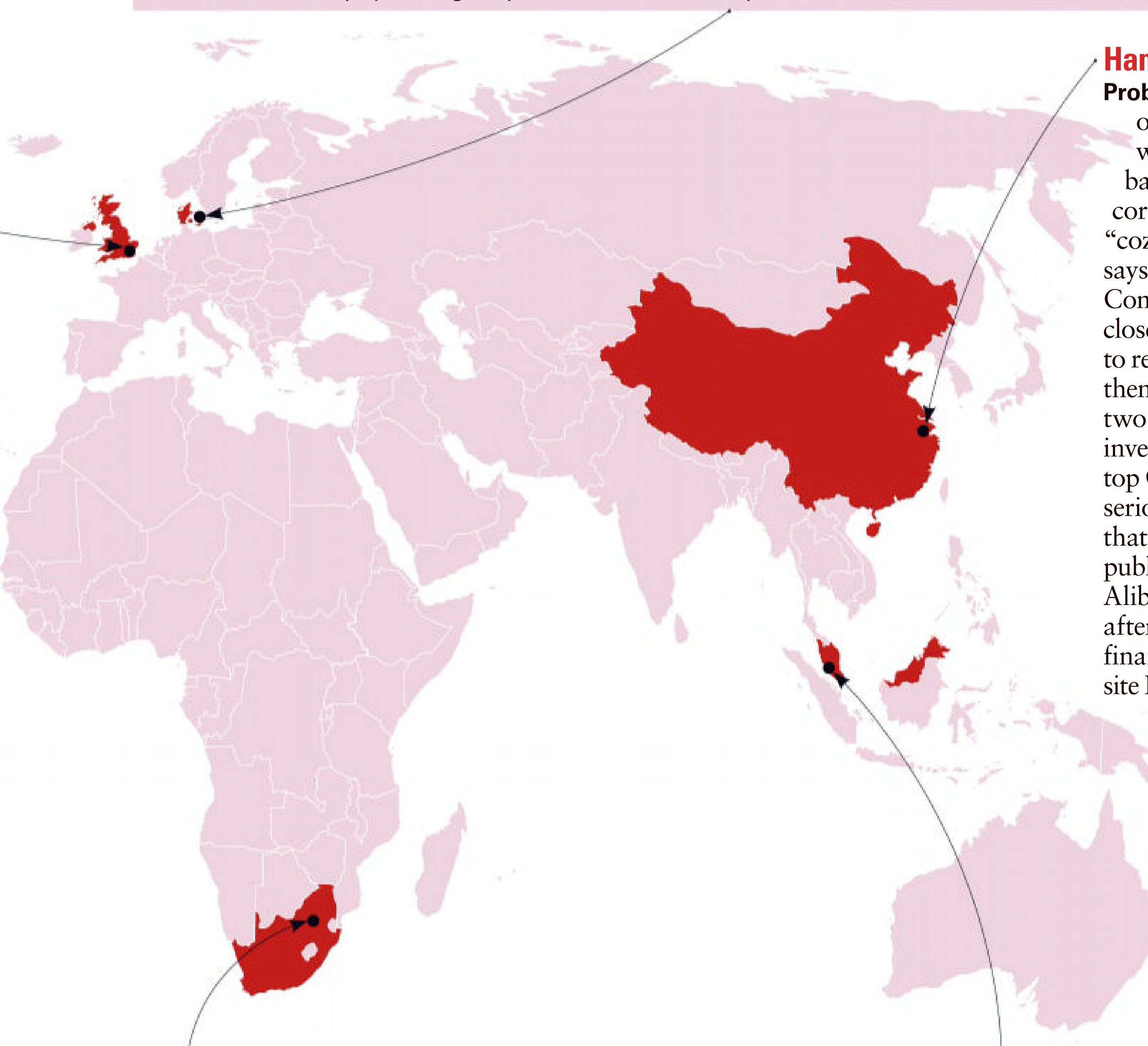
Copenhagen

Maersk goes green: Denmark-based Maersk, the world's biggest shipping company, has taken a big step towards decarbonising its sea freight by ordering eight new vessels capable of running on methanol as well as traditional fuel, says the Financial Times. Each ship will be able to move 16,000 containers between China and Europe or across the Pacific, and because of the new technology each will cost around $175m – 10%-15% more than a regular ship. Maersk expects to receive the eight ships from South Korea's Hyundai Heavy Industries in early 2024, and has an option for four more the following year. Maersk announced in 2018 that it needed its ships to be carbon neutral by 2030 if it were to achieve its net-zero goal by 2050, given the 20- to 25-year lifecycle of its vessels. It also ordered a small carbon-neutral short-haul "feeder" vessel in February. Methanol is roughly twice as expensive as traditional fuel, but Maersk is confident that its customers, including Amazon and clothing retailer H&M, will pay the higher price for cleaner transport.

Maersk plans to replace existing ships with greener ones



Hangzhou

Probe in Alibaba's hometown: Top government officials in the eastern city of Hangzhou, where tech giants Alibaba and Ant are based, are being investigated by China's anti-corruption watchdog after a report flagged "cozy government-business relationships", says The Wall Street Journal. China's Central Commission for Discipline Inspection ordered close to 25,000 Communist Party members to resolve conflicts of interests involving themselves or family members. The news came two days after the commission announced an investigation into Zhou Jiangyong, Hangzhou's top Communist Party official, over suspected serious violations. Chinese media reported that the probe is linked to the proposed initial public offering (IPO) of Ant, an affiliate of Alibaba. That IPO was halted in November after founder Jack Ma publicly criticised China's financial regulators. Elsewhere, group-buying site Pinduoduo, which is now China's largest e-commerce platform, posted its first ever quarterly net profit, but announced it will donate those and future earnings to the development of agriculture until it has given away RMB10bn ($1.5bn). The initiative is "among the more radical" in a string of philanthropic endeavours as companies respond to Chinese president Xi Jinping's call to "give back and share the wealth".

Pretoria

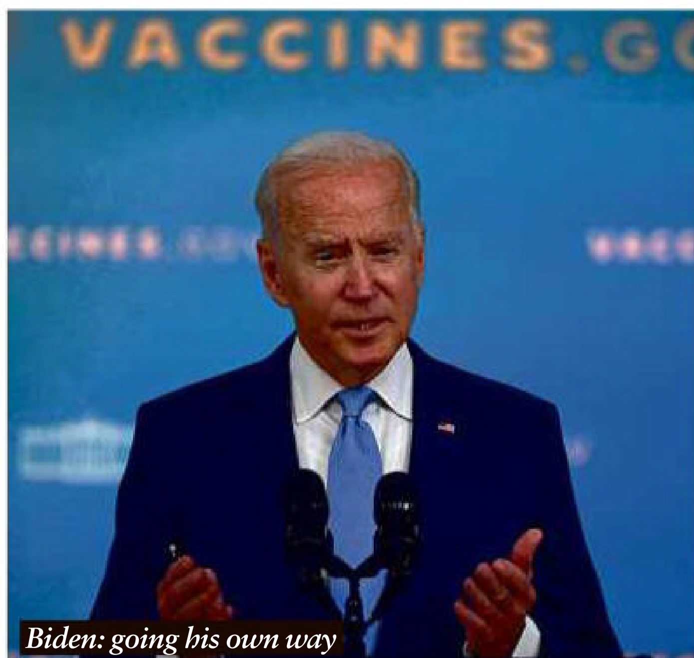
Unemployment soars: Buckling under pressures from the Covid-19 pandemic, South Africa has become burdened by the world's highest unemployment rate, says The Daily Telegraph. With more than 7.8 million people out of work by June 2021, unemployment figures leapt to a record-breaking 34.4% in the second quarter of the year, eclipsing all 82 countries screened by Bloomberg. When counting those not actively seeking employment, the numbers jump even higher to a staggering 44.4%, driven by a combination of Covid-19 lockdowns and weeks of riots following the imprisonment of former president Jacob Zuma for contempt of court. Following a decade of economic mismanagement, the riots reflect a crisis point for a failing state, exacerbating the problem as many places of work have been destroyed, says Cary Springfield in International Banker. Of the 20% of GDP accounted for by the hard-hit retail and production industries, estimated at $70bn in value, $14bn may have been lost to the violence, disproportionately in poor areas. With the announcement of further restrictions planned to curb the virus spreading – given that only 2% of the population has been vaccinated – these figures appear set to rise in the coming months.

Kuala Lumpur

New PM takes power: Four days after the resignation of Malaysia's prime minister, the current king, Sultan Abdullah (pictured – the job rotates between nine hereditary rulers) has appointed Ismail Sabri Yaakob, the leader of the United Malays National Organisation (UMNO) party to the role, says The Wall Street Journal. UMNO's previous leader, Najib Razak, was convicted of illegally taking hundreds of millions of dollars from a state investment fund, 1Malaysia Development, and sentenced to 12 years in prison and MYR210bn (£36m) in fines last year. The party, which has dominated Malaysian politics since independence, was a partner in the previous coalition, and Ismail Sabri served as deputy leader in the administration. While outgoing prime minister Muhyiddin Yassin has been much criticised for his handling of the Covid-19 pandemic – which has seen GDP drop 17.1% in 2020 – hopes for a new start under his replacement are not high. "It's very much a continuation of the old government, but under a new prime minister," Sebastian Dettman, a political scientists at Singapore Management University, told the WSJ.

Do booster shots make sense?

Britain and the US have gone their separate ways. Matthew Partridge reports



Biden: going his own way

Although both have double-jabbed most adults, Britain and America are taking divergent paths in relation to booster vaccinations, says Andrew Gregory in The Sunday Times. Last week the Biden administration announced that it had overruled the Centers for Disease Control and Prevention to make sure that third inoculations will be available to most adults from September. By contrast, the UK has gone the other way, with a "mass rollout of boosters for over-50s" likely to be shelved and doses limited to the most vulnerable, such as those who have weakened immune systems and others who are "unlikely to be adequately protected by two coronavirus doses".

Alarming news from Israel

The reason booster jabs have risen up the agenda is due to "alarming" data from Israel, says the Financial Times. It was the first country to "celebrate fully reopening its entire economy after double-jabbing 70% of its adult population" by early April, but is now experiencing a "fourth wave" of infections. Hospitalisations and deaths remain at a relatively low level, but there are signs that protection against severe disease has fallen significantly for elderly people vaccinated early this year. This suggests that booster programmes "may need to be relatively frequent and large-scale, unless the virus burns itself out".

It's true that studies suggest that the percentage of older people who are testing positive for protective antibodies has been "steadily declining" since May, suggesting that there is a degree of "waning immunity", says Sarah Knapton in The Daily Telegraph. However, fears of a "winter wave" remain overblown – 92.4% of over-80s still have some antibodies, and antibodies are not the only indicator of immunity. Studies of recovering Covid-19 patients suggest that people who have recovered from an infection "have immunity hidden away in their bones ready to spring into action" that could "last decades, or even a lifetime".

What about the left-behind?

The evidence is as yet inconclusive, but there is also a "moral argument" against administering booster shots, says Natalie Grover in The Guardian. The World Health Organisation agrees, saying it is immoral for rich countries to give out booster jabs "while so many people in many parts of the world are still waiting to get their first" shot. The CEO of Gavi, the Vaccine Alliance, warns that boosters "will suck many vaccine doses out of the system and many more people will die because they never even had a chance to get a single dose".

Nonsense, says The Wall Street Journal. Even if booster jabs aren't necessary to save lives, they could still reduce Covid-19-related economic disruption. As for poorer countries, the US alone has already shipped some 110 million shots to developing countries and is planning to donate another 500 million more, as well as giving $4bn to the UN's global vaccine programme. Mass purchases of vaccines by developed countries is also "allowing Pfizer and Moderna to invest in expanding their manufacturing capacity to supply the world with more vaccines".

Zero-Covid nations stick to their guns

Morrison: Australians remain under his thumb

Following "violent anti-lockdown protests", Australian prime minister Scott Morrison has admitted that stay-at-home orders currently affecting more than half the population are "unsustainable", says Bernard Lagan in The Times. The orders led to Sydney, Australia's biggest city, entering its ninth week of house arrest; Melbourne and Canberra also remain locked down. Still, despite "growing frustration", lockdowns will remain the mainstay of Australia's strategy to contain the pandemic for now. Only a third of its over-16s are fully vaccinated – the government has set a 70%-80% target before gradually easing restrictions.

Australians may be souring on hardline anti-Covid-19 policies, but New Zealanders remain broadly supportive of their government's elimination strategy, says Tess McClure in The Guardian. After removing all domestic restrictions for most of the last 12 months, the country returned to nationwide lockdown when cases soared to record levels following an outbreak linked to a returnee from Sydney. The population seems to agree with the government that it is "too soon to throw in the towel" – 69% still support the PM's elimination strategy, according to polls.

This so-called "zero-Covid" approach may have made sense in the first wave of the virus – early domestic restrictions and travel bans kept it out and the result was relatively few deaths, shorter lockdowns and better economic performance, says Matthew Lesh in The Daily Telegraph. But the Delta variant is "making elimination difficult if not unachievable" and vaccines have made it totally "pointless".

Betting on politics

Between the end of 2016 and the start of 2021, a lot of money was placed on whether Donald Trump would last out four full years in office. Ironically, the terms of Betfair's impeachment market (which only required one branch of Congress to impeach him) meant that both those betting on him being impeached and those who bet on him clinging on ended up making money.

This time around, Ladbrokes is offering 1/2 (66.6%) on Joe Biden serving his full term and 13/8 (61.9%) on him leaving "via impeachment, resignation or 25th Amendment". Smarkets is also running various similar bets, including a market on the year that he leaves the White House, as well as one on impeachment.

In the case of the three main markets, Smarkets has stated that the death of Biden in office would void all bets. Biden might also voluntarily depart due to ill health, or be removed if he was in such a state that the vice-president and a majority of the cabinet (or two-thirds of both the Senate and the House) found that he was "unable to discharge the powers and duties of his office".

Personally, I think the chances of him leaving office due to ill health or otherwise are lower than the odds would imply, making the 1.57 (63.7%) on Biden serving a full term available on Smarkets good value. After all, Dwight Eisenhower and Ronald Reagan (pictured above) managed to succeed despite being in poor health. Three and a half years is a long time to have to wait for a bet to pay off, though, so I'd hold on to your money for now.

©Getty Images

Britain's military might

With America seemingly withdrawing its claws, the global hegemon's allies will need to step up to protect their interests. Is Britain up to the job? Simon Wilson reports

What has happened?

The US humiliation in Afghanistan has thrown into doubt all existing assumptions about America's ongoing role as a global hegemon, and – by extension – the entire basis of the UK's foreign and defence policies. Since 1945, there have been two dominant strands of thought in British politics and security circles about the complex relationship with the US, says Andrew Rawnsley in The Observer. The majority view – that of "hug them close" Atlanticism – holds that Britain amplifies its global power by gluing itself to Washington. The other strand of opinion – more common on the left, and more pronounced post-Iraq – is that the US is a menace. These opposed views are both built, however, on the assumption of US dominance. An inward-looking US – and one that is content to sow doubt about its guarantees to other allies – confounds the assumptions of both main strands of thought. For Britain, that changes everything.

How so?

If we are entering an age of American disengagement, things look rough for the UK, especially at a time of post-Brexit strains in relations with European allies. It increasingly looks like we are heading into a multi-polar world of growing disorder in which "great powers jostle for predominance and norms of international conduct are trampled underfoot", argues Rawnsley. "This will be a rough place for a country in the north-east Atlantic with lots of vital interests around the globe, but not the means to safeguard them by itself and no one it can count on as an all-weather friend." The humiliation in Kabul is a historic inflexion point, which leaves the UK urgently needing to reassess its foreign policies and defence capabilities.

For what purpose?

For the purposes of promoting our national interests in a world where the US is a more distant ally. It might be delusional (contrary to the supposition of some MPs) to think that the UK could have acted alone once the US packed up in Kabul. But there are "many options short of unilateral military action", argues James Rogers of the Council on Geostrategy think tank. Even in Afghanistan, with a stronger and more dynamic military the UK would have had more options, including inspiring a committed group of allies to oversee a more careful and orderly withdrawal. As the US continues to evolve, there will be many more occasions when its actions might be counter to UK interests. We need to start preparing for that now, by forging new alliances, and investing in a stronger military.

Britain spends a lot of money, but doesn't spend it well

©General Dynamics

How much do we spend now?

The Ministry of Defence's (MoD) annual budget is £41.5bn, rising 0.5% above inflation for the rest of this parliament. Last November, it secured an extra £16.5bn over four years from the Treasury, adding another 10% or so. Britain is one of ten Nato countries (of 30) to hit the target of spending 2% of GDP on defence. UK defence spending has fallen sharply since the end of the Cold War, but has nudged up again from about 2.1% of GDP in 2007 to about 2.4% now. We are a long way behind the US (which spends almost 4%) and third in Nato overall, just behind Greece. However, much of that increase relates to the higher cost of new technologies. In terms of personnel, the UK armed forces are smaller now than at any time since before the First World War. As of 2020, our military stood at 145,000 people, less than half the size in 1990, and a third of the size in the mid-1960s. That trend, towards a lower headcount and higher spend on high-tech kit, is set to accelerate under the MoD's most recent strategic review (*Defence in a Competitive Age*), published in the spring.

"Defence spending is up from about 2.1% of GDP in 2007 to about 2.4% now"

Is the money well spent?

Not according to the latest National Audit Office analysis, published two months ago. The watchdog reviewed 20 programmes, with a combined forecast cost of £120bn, and found a horror story of soaring costs, crippling delays, poor procurement practices and contractor deficiencies. "Too often the MoD doesn't deliver its major equipment contracts as planned due to a combination of supplier underperformance, a failure of the MoD and suppliers to get to grips with the technical complexity of projects, and [resorting to] short-term solutions to affordability problems," says Gareth Davies, the head of the government's spending. UK defence procurement is a "conspiracy of optimism", says Francis Tusa, editor of Defence Analysis. "We have seen four, maybe five substantial attempts to reform the procurement of large programmes since the late 1990s." But nothing seems to change.

Is there an example?

Witness the ongoing uncertainty around Ajax armoured vehicles, envisaged as a core plank of the UK's future battlefield surveillance capability. The MoD ordered 589 high-tech Ajax vehicles from US contractor General Dynamics seven years ago in a deal worth £5.5bn. But last month, after a series of setbacks, procurement minister Jeremy Quin admitted that the government is "not 100% certain" that the problems facing the "troubled" programme may ever be resolvable. So far only 26 have been handed over, while the UK has so far paid out £3bn on kit that's so bad it caused physical injuries and hearing loss among some of the soldiers testing them. Spending better, not just spending more, will be critical to UK defences.

But does the UK face genuine threats?

Demonstrating military relevance is hard in peacetime and it has always been the case that a lack of warfighting operations undermines public support for the forces, says James Kirkup in The Times. After the Cold War, Western nations banked the peace dividend, winding down military spending. But that has made us complacent in the face of new challenges. Reducing our dependence on the US will not come cheap. It will also mean more military co-operation – and, crucially, resolve.

How to squeeze CEOs' pay

Bosses' remuneration has fallen this year. Good. Here's how to get it to decline a bit more

Matthew Lynn
City columnist

Everyone agrees CEOs should be well paid. It is a stressful job and when they get the big decisions right, they can add hundreds of millions to the value of the business. But paying the boss 40 times more than the average person would seem a fair reflection of the extra burdens of the job, and that would be half the current differential.

Figures out last week showed FTSE CEOs' pay down by 17% for the year. According to the High Pay Centre, the average chief executive of one of the UK's top 100 companies took home £2.7m last year, down from £3.3m in 2019. Apart from a few Bentley dealers, it is unlikely that many people will be terribly upset about that. Over the last decade, executive pay has just kept on going relentlessly upwards, even though there was very little evidence that overall corporate performance was improving, at least at anything like the same rate, nor were many shareholders seeing spectacular returns. By last year, the differential between average and CEOs' pay had soared to a record 86. With average wages rising, and CEOs' pay falling, that will finally start to narrow, at least by a smidgen. The interesting question is, how do we keep that trend going?

CEOs worth their salt

True, there are a handful of CEOs who are really worth every penny they get paid. Simon Wolfson at Next definitely falls into that category. Dave Lewis should certainly have been paid millions for his turnaround of Tesco – the company was in a dire state when he joined. Pascal Soriot at AstraZeneca is also worth every penny, although since he is already paid more than

Next's Simon Wolfson: he's worth every penny

©Next Plc

£15m, he doesn't really need a raise. More people could be added to the list, but not that many. In truth, most of the people running the UK's largest companies are just corporate hacks. At best, they keep a steady ship ticking over, while at worst they spend tens of millions on pointless redesigns, meaningless slogans and vapid strategy reviews. Corporate pay has become a racket in which a small group of executives and non-executives sitting on each other's boards continually ratchet up the going rate for everyone. It is great for the handful of insiders who benefit from the system, but it does little for anyone else. Here are three ways we could start to change that trend.

First, hand more power to small shareholders. Institutional shareholders have proved to be hopeless at controlling executive pay. They don't have the time and resources to devote to it and they are so lavishly paid themselves that they have lost any sense of what a fair salary looks like. It might take a tweak to the law, but we could introduce extra voting rights for individual shareholders on the single issue of approving the chief executive's pay. It is one thing to explain a £3m salary to a group of fund managers who also count their earnings in six or seven figures. It is a lot harder to justify it to a group of shareholders who may never earn that much in their lifetime.

We need more competition

Next, we should open up remuneration committees. Right now the group of people who decide the CEO's pay are appointed by the chairperson, usually with the help of one of a small group of headhunters. It is a system that is rife with cronyism and backscratching. People are chosen because they don't rock the boat, don't ask difficult questions and nod through big pay packets without any objections. Why not create a pool of qualified board members, then allocate them to a company by a lottery? It would be random, much like a jury. Connections and favours would count for nothing and the judgements the committee made would be a lot more objective.

Finally, we should widen the selection pool, so more people from different backgrounds can compete for the top jobs. We are starting to see more women run big companies, for example, but there is still a long way to go before there are as many as there are men. If there was more competition for every CEO role, then we wouldn't have to pay them so much.

Who's getting what

● **Tom Harrison**, chief executive of the England and Wales Cricket Board (ECB), is among "six or seven" senior executives set to share in a projected £2.1m bonus, despite the sport's governing body cutting a fifth of its workforce during the pandemic, says The Guardian. The long-term incentive plan (LTIP), established in 2017, is due to be settled in cash in 2022, despite the board falling to a £16.5m loss last year. Harrison (pictured) was paid £512,000 for 2020.

● **Stephen Hester** is set to steer the post-pandemic recovery at short-haul airline easyJet, says Reuters. The former Royal Bank of Scotland boss, who is credited with restructuring the bank in the aftermath of its taxpayer-funded bailout in the financial crisis, will take over from John Barton as chairman in September. Hester will be paid £314,568 a year, which also includes pay for his duties as a non-executive director, according to easyJet.

● The American pharmaceutical giant Johnson & Johnson announced last week that its chief executive, **Alex Gorsky**, will step down early next year and be replaced by the vice-chairman of the company's executive committee, **Joaquin Duato**, says American investment magazine Barron's. Gorsky, who has worked at Johnson & Johnson for three decades, and has led the company since 2012, was paid $29.6m in total for 2020, while Duato received $15.6m, both earning around 16% more than the previous year.

©Getty Images

Nice work if you can get it

The UK may seem bad enough (see above) but CEO pay in the US – including stock awards that now make up around 80% of pay deals on average – has risen by 1,322% after inflation since 1978, according to the Economic Policy Institute, says Indigo Olivier in The Guardian. That's around six times more than the top 0.1% of wage earners have made and 73 times higher than the growth of the typical worker's pay – up only 18% above inflation. In the year to 2020 alone, CEOs' pay in the US rose 18.9%. Today, the CEO-to-worker pay gap stands at a "staggering" 351 to one, "an unacceptable increase from 15 to one in 1965… [while] the average CEO makes nearly nine times what the average person will earn over a lifetime in just one year". Conversely, had the federal minimum wage kept pace with workers' productivity, it would stand at $24 an hour, rather than the $7.25 it's been stuck at since 2009.

The dividend drought ends

Dividends plunged as Covid-19 spread, but have rebounded almost as quickly. What can investors learn?

John Stepek
Executive editor

Japan: strong dividend growth

In investment terms, dividends payouts were among the biggest casualties of the Covid-19 pandemic. Companies slashed their payouts back to 2017 levels on a global basis, according to data from fund manager Janus Henderson, with the UK market being hit particularly hard. And yet what could have been a nightmare for dividend-dependent investors has turned out to be far less damaging than feared. According to the fund group's latest global dividend index, payouts will recover pre-Covid-19 highs within a year.

What happened? Unheard-of government support for businesses and employees, combined with a surge in demand as restrictions eased, meant that companies found they had been overly pessimistic. Banks reversed bad debt provisions, while firms across the board found that their main problem was meeting customer demand rather than managing a decline.

Yet there are a few useful lessons that dividend-focused investors should learn from this near-miss. Firstly, UK investors should note that while payouts are recovering fast, UK dividends may not get back to 2019 levels before 2025. Companies have taken "the opportunity to reset payments at more sustainable leves", Helen Bradshaw of Quilter Investors tells the Financial Times, as payout ratios (see below) were stretched in several sectors even before Covid-19 struck. Oil major Shell's chief executive Ben van Beurden is upfront about it: "We felt that our dividend needed to be reset... the gap between our dividend payout and free cash flow was simply too large."

This is good news – it implies that if you're buying UK stocks just now, then dividend payouts should be on a more sustainable footing than they have been in some time. On the other hand, it shows the importance of diversifying. The FTSE 100 index is a high-yield index, but there is more to dividends than yields. Growth matters too. So it's even worth looking at regions that may seem to have less recovery potential – Japanese stocks barely cut dividends in 2020 yet saw "strong" 11.9% underlying growth in the past year.

"Global dividends will hit pre-pandemic levels within a year"

But the most important lesson is this: don't get too hung up on dividend income. Yes, dividends are great – they remind managers of who they're working for (shareholders) and they're a transparent way to return cash. However, if you are at the stage of your investment life where you are relying on your portfolio for regular income rather than building a nest-egg, then dividends should only form one part of that strategy. Other income-generating assets such as property and bonds are key, while ensuring you always have a cash cushion of one or two years' living expenses will help to ensure you aren't forced into cashing in investments at exactly the wrong moment.

I wish I knew what payout ratios were, but I'm too embarrassed to ask

Companies pay dividends to shareholders out of their profits. A dividend is entirely discretionary – unlike the interest payment on a bond, it doesn't have to be paid and it can be cut or even scrapped altogether if deemed necessary.

Directors decide what proportion of profits they will distribute: the amount varies depending on how well the company has done (ie, on how much the directors feel it can afford to pay out), but also on other, less tangible factors.

For example, directors tend not to be keen on cutting dividends because the market reaction is typically bad. Also, fast-growing firms tend to pay out a lower percentage of their profits than more mature firms, because they prefer to invest all or most of their profits in opportunities for future growth.

If a company's dividend yield (dividend per share as a percentage of the share price) looks particularly high, then that can be a warning sign. For example, if a company is paying a dividend of 10p a share, and the share-price is £1, that's a yield of 10%. If the average for the index is much lower than that, then it suggests investors are betting that the dividend won't be paid.

How can an investor assess the risk of a dividend cut? One way is to look at the payout ratio. This simply measures what percentage of its profits the company is paying out in the form of dividends.

To take a very simple example: a firm that makes £20m in profit and allocates £2m for dividends has a payout ratio of 10%; a firm that makes £50m but pays out £25m in dividends has a payout ratio of 50%. All else being equal (in that some types of businesses – those with stable, reliable earnings – are capable of sustaining higher ratios than others) the lower the payout ratio, the more sustainable it is. Another popular metric – dividend cover – is simply the inverse of the payout ratio. So in example one, the dividend is covered ten times, versus twice for the second.

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Guru watch

Cathie Wood, founder/CEO, ARK Invest

Michael Burry made his name by profiting from the US housing market crash that preceded the global financial crisis. So when it turned out that the famed short seller's hedge fund is betting that Cathie Wood's flagship exchange-traded fund (ETF) is heading for further falls, the ARK Invest founder came out fighting.

Wood took to Twitter to praise Burry's track record. However, she added: "I do not believe he understands the fundamentals that are creating explosive growth and investment opportunities in the innovation space."

ARK has become synonymous with growth investing after the ARK Innovation ETF – whose top holdings include electric car group Tesla and crypto exchange Coinbase – returned nearly 150% last year. This year has been trickier – the ETF has lost more than 25% of its value since peaking in February, as some steam has come out of the market's hottest stocks amid concerns that interest rates and inflation will rise – but Wood is still confident.

"Most bears seem to believe that inflation will continue to accelerate, shortening investment time horizons and destroying valuations." Yet commodity prices such as lumber and oil have "been breaking down" since mid-May, says Wood, while existing longer-term deflationary trends driven partly by new technologies remain intact. "The equity market is likely to reward disruptive innovation strategies once again when headline inflation breaks and/or fears of recession increase. If the bond market is correct, one or both will be obvious", within six months, she says.

A message from lorry drivers

Sarah O'Connor
Financial Times

A shortage of lorry drivers has led to empty supermarket shelves, says Sarah O'Connor. Remainers may be tempted to say: "We told you so." But they would be missing the point. Empty shelves are a cry from a workforce that is rarely visible – lorry drivers. The hours are long, unpredictable and anti-social, often requiring working on weekends and through the night. Drivers, who often pay to get their HGV licences, have also been slipping down the wage ladder, under pressure from powerful customers, such as supermarkets, who drive down costs. In 2010, the median HGV driver in the UK earned 51% more per hour than the median supermarket cashier. By 2020, that premium had been cut to 27%. Many drivers quit in their 30s. The hours make it hard to raise children, and the pay isn't enough to support a partner staying at home. And where drivers had saved on tax by setting up as limited companies, that loophole has now been closed. Immigration from Europe masked the problem, but, as labour reforms in the Netherlands showed, Brexit wasn't the only solution. So, while Remainers are right to say Brexit helped cause the crisis, they are wrong to say everything would have been fine had it not happened.

Covid wipes out Asia's hard work

Timothy McLaughlin
The Atlantic

The recovery in several Southeast Asian economies following the 1997 Asian financial crisis had, if haltingly and unevenly, been robust, says Timothy McLaughlin. The sales pitch was clear. The countries that make up the Asean trade bloc have a combined population of 650 million and a cumulative GDP of $2.8trn. Youthful populations and Indonesia's tech unicorns have boosted the economy. But with the spread of the more transmissible Delta variant of Covid-19 this summer, things are not so rosy. The region has once again become a hotspot for the virus. This ballooning health crisis has collided with, and in some cases been exacerbated by, churning political discontent, as seen in Malaysia and Thailand. Myanmar, which had begun in 2011 to shake off its pariah status with a programme of economic liberalisation and partial democratic reform, has slipped back following a military coup in February. The World Bank last month warned its economy could contract by 18%. Work and travel restrictions, too, have stalled recoveries. Many workers who had attained middle-class comforts have since lost them, along with their livelihoods. Unemployment has become not only an economic problem, but a serious social one as well.

A tricky path to a single currency

Eswar Prasad and Vera Songwe
Foreign Affairs

Over a decade ago, the leaders of the Economic Community of West African States (Ecowas), a regional trade bloc of 15 countries, committed to establishing a monetary and currency union with a single central bank by the end of 2020, say Eswar Prasad and Vera Songwe. It has yet to see the light of day. Despite the "initial rush of enthusiasm", no Ecowas country has attained the economic benchmarks the group established as preconditions. The goal has been pushed back to 2027. But the path to get there will remain a difficult one. The countries making up the trade bloc are at very different stages of economic development. There are vast discrepancies in population size and GDP. Some members rely heavily on raw materials exports; others are net importers. Other difficulties abound. Better would be to follow the Asean trade bloc in Asia. It has established an "extensive network of financial and trade arrangements", but retained monetary policy autonomy. This has allowed them to foster economic integration while avoiding the tensions inherent in monetary union. Ecowas leaders "might consider starting with similar small steps toward trade and financial integration as precursors to a more durable monetary union".

Will China take a bite out of Apple?

Editorial
The Economist

When Tim Cook took the reins from Steve Jobs, Apple's "fanboys" worried the company would decline, says The Economist. It hasn't. In the ten years since Cook took over, annual sales have risen from $108bn to $274bn. Net profits have more than doubled to $57bn. The firm is worth $2.5trn, "more than any other listed firm ever". But can it stay at the top for another decade? It will be a challenge. It will need to come up with new ideas if it is to keep growing and competition is hotting up. It also faces geopolitical headwinds. Most of the firm's products are assembled and many of them are sold in China, and it has made many concessions to Beijing, including over where Chinese users' data is stored. But the "pugnacity with which the government is going after its own tech giants" must be making Apple's bosses nervous. Apple relies on China for the bulk of its assembly and many of its suppliers. In 2019, Goldman Sachs estimated that Chinese retaliation could cut Apple's profits by nearly 30%. Things could always get worse if China bans Apple's products or services, or if Western consumers get bolshy. Cook's knack with spreadsheets has served Apple well over the past decade. Its next CEO may need "different capabilities".

Money talks

"It costs a lot of money to look this cheap." Oxford locals quote Dolly Parton (pictured) in a protest over a conservation area's building being turned into a copper-clad yoga studio, reported in the Daily Mail

"What I like about money is that if I want to buy a pound of peaches I don't have to buy half a pound. I can have a whole pound. And that's good, right? I don't really spend a lot, other than on the things I collect. But it's nice to know that I can if I want to." Charlie Watts, drummer for The Rolling Stones, who died this week, quoted in London's Evening Standard in 1969

"If you work for me, you get paid on the day you invoice, you get mental-health supervision. We're delving into people's lives, so I want my tiny little area of the film industry to be a better place, where people are valued and looked after." Filmmaker Jeanie Finlay, quoted in The Guardian

"Whatever large city you go to in the world, with the possible exception of Pyongyang, you find the same shops selling the same products, usually at not very different prices, at least not so different that they would be worth journeying 5,000 miles to take advantage of, though this is precisely what considerable numbers of people do. Futility, thy name is shopper!" Theodore Dalrymple in Taki's Magazine

"Austerity feels like a very, very long time ago. Our arguments in 2009-2010 were that you have to support the economy and job creation. If you try to go too early to consolidate with austerity and cutting the state, you'll make things worse… It's taken a pandemic for people to be forced to see the wisdom of those ideas." Former shadow chancellor Ed Balls claims his views have been vindicated, quoted in The Observer

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Two cheers for neoliberalism

conversableeconomist.wpcomstaging.com

About 20 years ago, I was part of a group that travelled South Africa giving lectures to businessmen and policymakers, says economist Timothy Taylor. My role, "at least as perceived by the audience", was to "defend American imperialist capitalism". I was surprised to find that no phrase was uttered quite as often nor with quite the same scorn and disdain as "the Washington consensus" (often conflated with "neoliberalism"). How did a set of ideas on how to deal with debt crises in Latin America and other emerging economies, which commanded broad agreement among academics and policymakers, become a "rhetorical trope"?

The "Washington consensus", far from being a neoliberal manifesto, began as a set of proposals on what terms should be imposed on debtor countries before they could get loans, with the aim of setting their economic houses in order. The consenting parties to the "consensus" included the US Treasury, the IMF and the World Bank, think tanks with related agendas, and, over time, Latin American governments, who came to understand the "destructive power of macroeconomic instability".

The terms imposed had the aim of taming inflation and boosting growth and included measures to: get budget deficits down; cut subsidies and redirect the money to growth-boosting reforms; broaden the tax base and cut marginal tax rates; liberalise finance; establish competitive exchange rates; replace trade barriers with tariffs then lower them; remove barriers to foreign direct investment; privatise state enterprises; cut red tape and secure property rights.

IMF protests in Latin America: be careful what you wish for

©Getty Images

Broadly speaking, this worked. Countries that followed the Washington consensus tended on average to have better economic outcomes than those that didn't. So why the disdain? It's true that some of the more positive aspects of the recommendations, such as increasing spending on primary education and health, got lost in the rush to cut debt. Some of the real-world problems that resulted were not given enough attention – when local producers are driven out of business, it's not enough to say that things will on average and in the long term be better. There was no effort to win political support, which made the reforms feel like mandates handed down from on high. And important factors such as the role of technology and the importance of social cohesion were not addressed.

Still, the gains should not be lost sight of. Without the policies of the Washington consensus, general living standards in Latin America and elsewhere would suffer.

The Taliban's economic prize

nytimes.com

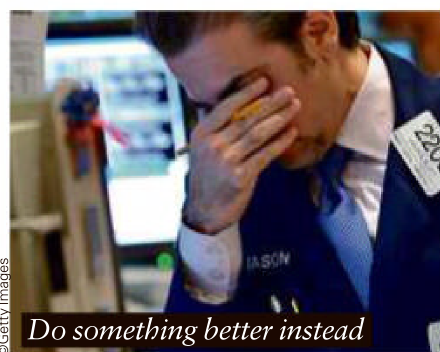
Some commentators say that pressure could be brought to bear on the direction of the new Taliban government in Afghanistan in the form of threats to withhold humanitarian and development funding, say Graeme Smith and David Mansfield. Given that the state is bankrupt, relying on foreign donors for 75% of spending, that might seem reasonable. But it is unlikely to work. Even before their "blitz into the capital", the Taliban had already "claimed the country's real economic prize": the trade routes that serve as strategic choke points for trade across south Asia. This, not drug trafficking, is "where the real money is": the illegal movement of ordinary goods such as fuel and consumer imports, and the collection of fees by armed goons. Revenues from such activities dwarf international aid. The border province of Nimruz raised about $235m annually for the Taliban compared with $20m in foreign aid, for example. More than $2bn in trade passes through crossings with Iran, according to official figures, and our research suggests the figure could be twice as high. With their hands on highly profitable revenue sources such as these, and with neighbouring countries such as China and Pakistan willing to do business, the Taliban are "surprisingly insulated from the decisions of international donors".

Invest your time wisely

bloomberg.com/opinion

The Chartered Financial Analyst (CFA) exams are taken by young workers on Wall Street hoping to advance their careers, says Jared Dillian. Although not strictly needed, a pass is more or less essential for some jobs, and the exams are "notoriously difficult". The latest pass rate for Level 1 was only about 25%. And the cost of sitting them, although not large in dollar terms, is exhorbitant in terms of time – it's a commitment of four or five years and many hundreds, even thousands, of hours of study.

Unless you are in asset management or investment research, that's probably not


Do something better instead

©Getty Images

time well spent. You don't learn anything much more than how to pass a test. "I honestly don't remember a single thing I learned from the CFA programme." An MBA, on the other hand, which has been eclipsed by the CFA, provides an "immersive experience" that "is still paying dividends", and produces "more well-rounded and thoughtful employees".

In short, a CFA will not make you a better investor and is "a colossal waste of time". It would be better spent on just about any other pursuit" – try a Masters in Fine Arts instead.

The chips are down for global economy

ftalphaville.ft.com

The global shortage of semiconductors, and its effects on the production of everything from graphics cards for video games to fridges, has been "one of the more surprising outcomes of the Covid-19 crisis", says Jamie Powell. The supply crunch seemed to be largely over by June and just two weeks ago a headline in Fortune magazine talked of a glut. We are not, however, "out of the woods quite yet". Carmaker Toyota has announced that it is to cut global production for September by 40% from its previous plan as a result of semiconductor shortages. Its shares fell on the news, seeing the biggest daily drop since December 2018 and pulling the benchmark Nikkei index to a seven-month low.

A 40% cut in global production! And "not for some two-bit electric vehicle start-up either, but the world's largest car manufacturer by volume". If Toyota can't secure semiconductors from its suppliers, what hope for other industries? "It seems that the worst of the supply-chain disruptions of the past year are far from behind us. And that's bad for stocks."

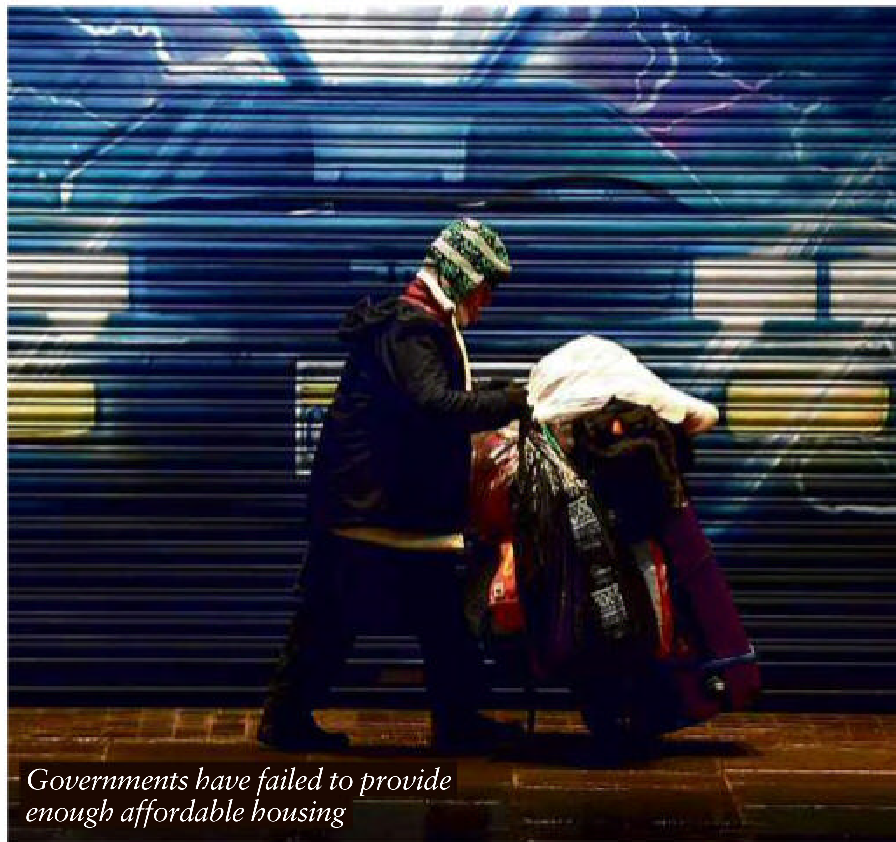
A solid return with a social impact

The private sector can help tackle homelessness – but investors should expect to be rewarded as well

Max King
Investment columnist

In his 1991 book *Parliament of Whores*, the political satirist P. J. O'Rourke showed that the US government spent $98bn on poverty relief each year– twice as much as the aggregate amount ($50bn) by which 32.5 million Americans fell below the poverty line. Additional state and local spending of $28bn meant the average poor family should have received enough to raise them comfortably above the poverty line. Yet all that money failed to solve the problem.

The US hasn't got better at poverty alleviation in the subsequent 30 years, and the UK government is no more efficient. There are 288,000 homeless households in the UK yet local authorities' policy is to accommodate them in expensive and often sub-standard bed-and-breakfast accommodation. Perhaps the private and charitable sectors can do a better job for less cost?



Governments have failed to provide enough affordable housing

©Getty Images

A solid yield from Home Reit

This is the thesis of two funds listed in late 2020, **Home Reit (LSE: HOME)** and **Schroders BSC Social Impact Trust (LSE: SBSI)**. Home, managed by Alvarium, raised £240m to invest in "acquiring high-quality properties across the UK let or pre-let to robust tenants on long leases (typically 20 to 30 years), with index-linked or fixed rental uplifts". These tenants are registered charities, housing associations, or community interest firms but Home is a passive landlord and so it is not responsible for providing care operations for the occupants.

Within six months, £235m was invested in 572 properties managed by 16 tenant partners providing 3,019 beds for the homeless. The initial rental yield is 5.8%, paid for by the Department for Work and Pensions via local authorities. Index-linked rents average just £86 per week, compared with an average £225 per week for those in temporary bed-and-breakfast accommodation.

Home has borrowed £120m for 12 years at a fixed cost of 2.07% to invest in further properties. Another equity issue is likely before long. Even without the benefit of leverage, net asset value (NAV) increased by 4.9% to 102.8p in its first six months, ahead of its target return of 7.5% per year. The shares at 114.5p trade at an 11.3% premium to NAV (as of end February), but are better value than they first look. With a prospective yield of 4.6%, they provide investors with a healthy return and generate a positive social impact.

A less compelling choice

The Schroders trust offered more meagre returns, so raised only £75m. It calls on the expertise of Big Society Capital (BSC), founded ten years ago by Ronald Cohen and four high-street banks, to help it invest in a mixture of social enterprise debt, high-impact housing and social outcomes contracts.

The target return is only 2% over inflation, which, given the Bank of England's 2% inflation target, means 4%. The yield when fully invested will be just 1%-2%. The gross return is expected to be near to 6%, but BSC and Schroders will each get a management fee of 0.4% and the underlying managers' fees will be about 1%. It seems when it comes to good causes investors are expected to tighten their belts more than managers.

The trust announced that at the end of April it was 60% invested and 90% committed. The NAV at the end of 2020 was up to 99.9p, but it is hard to see it raising significant further equity or sustaining additional debt without higher than target returns. The shares at 103.5p trade at a premium to NAV, which doesn't look justified. The social impact is commendable, but it may be naïve to believe that it will protect it from public-sector hostility to the private and charitable sectors if the political mood changes. Investors can achieve better social impact and better returns by combining conventional investment with tax-deductible philanthropy. Home shows that investors don't need to sacrifice returns for social impact. Perhaps SBSI will get the message.

Activist watch

UK insurer Aviva has set out plans to return £4bn to shareholders by June 2022 under pressure from Swedish activist investor Cevian, reports the Financial Times. The £16bn investment fund revealed in June that it had acquired a 5% stake in Aviva and began pushing the company to streamline its management structure and return excess capital. Cevian called for £5bn to be paid out in dividends or buybacks, as well as a £500m reduction in the insurer's annual costs by the end of 2022. Aviva's proposals include a £750m buyback to start immediately and a target of £300m cost savings. The firm is in the process of selling eight international divisions for a total of £7.5bn, leaving it with its core markets of the UK, Ireland and Canada.

Short positions... Interactive Investor aims for IPO

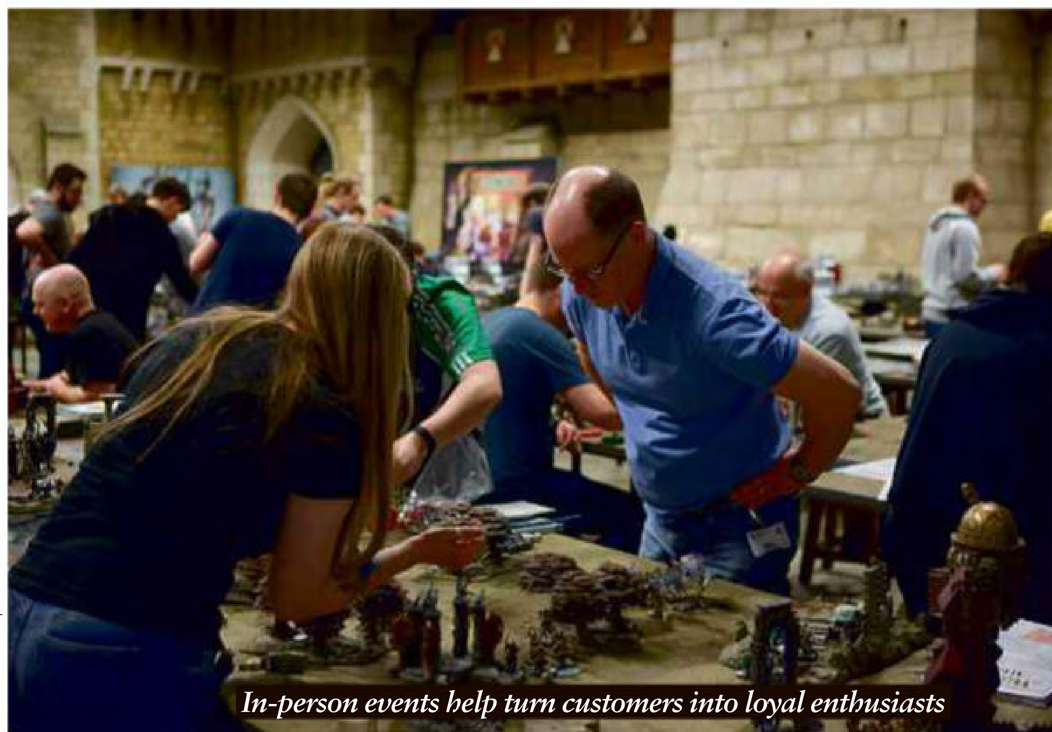
■ **Interactive Investor (II), Britain's second-largest investment platform, is aiming for a "blockbuster" initial public offering (IPO) in 2022, reports Sky News, which could value it at as much as £2bn. "Investors' appetite for retail platforms such as II, Hargreaves and AJ Bell has soared in recent years", as customer activity has risen amid the pandemic. II stands out among its rivals for its "flat-fee" subscription model, under which users pay a monthly fixed price, rather than a percentage of assets held. Private-equity firm JC Flowers took a majority stake in II in 2016; since then it has grown into one of the UK's biggest retail platforms (behind Hargreaves Lansdown) with more than 400,000 clients and £55bn of assets under administration. In its half-year results, the firm revealed it had added over 30,000 new clients and posted a revenue gain of 19% to £76.1m. *(Disclosure: MoneyWeek editor-in-chief Merryn Somerset Webb sits on II's investment governance committee).***

■ Exchange-traded fund (ETF) provider WisdomTree is to launch a new London-listed emerging-markets ETF that will exclude state-owned enterprises (SOEs). The fund will screen out any business in which the state controls a stake of more than 20%, as well as those that don't pass certain ethical criteria, such as involvement in controversial weapons, tobacco and thermal coal. "The strategy has an overweight to 'new economy' sectors such as IT, consumer discretionary and communication services," notes Citywire. WisdomTree argues that SOEs, which are often "large but fairly inefficient", tend to focus on "old economy" sectors and are also "generally less dynamic and innovative" due to government influence, so they don't reflect the full growth potential of their domestic economies.

Real profits from fantasy games

This long-established maker of wargames has enormous potential for further growth

Dr Michael Tubbs
Investment columnist


©Games Workshop
In-person events help turn customers into loyal enthusiasts

Games Workshop (LSE: GAW) is a £3.8bn FTSE 250 company with a fine record of growth and profitability (see below). The firm's business model is simple, at least in theory. It aims to "make the best fantasy miniatures in the world, to engage and inspire our customers, and to sell our products globally at a profit", says the investor relations website. "We intend to do this forever. Our decisions are focused on long-term success, not short-term gains."

More specifically, Games Workshop sells fantasy games such as *Warhammer* to a large number of devoted customers, both online via its own website and through more than 523 of its own shops and a further 5,400 independent outlets in 73 countries. The shops are not solely for buying: they play a key role in showing customers how to engage with the hobby of collecting, painting and playing with the miniatures, landscapes and wargames so they join the wargaming community. This activity helps recruit new customers to be long-term collectors and fantasy gamers. Special events at its Nottingham headquarters also help strengthen customer loyalty.

Keeping it all in-house

The Games Workshop range includes more than 1,000 fantasy miniature models, landscapes, wargames and other products, and the company is continually adding to that. The design studio in Nottingham now employs 262 people and develops its own range of paints, brushes and painting systems for the many customers who personalise their miniatures. The emphasis is on high quality, so miniatures are manufactured in-house in the UK rather than subcontracted to Asia. In 2020/2021, it invested £30m in research and development (R&D), amounting to a high 8.5% of sales. This long-term, quality approach with substantial R&D investment is an attractive feature of the company.

Growing online and abroad

Games Workshop has four streams of revenue and profit. These are its own shops (retail), independent shops (trade), online and royalties (from licensing its intellectual property). The 2020/2021 revenues and the growth over the previous year for these four streams were: trade £194.8m (39%), retail £70.7m (-9.4% due to shop closures), online £87.7m (+69.6% rise, reflecting shop closures) and royalties £15m (-5% and all profit). The three main areas with potential for growth are overseas markets, online sales and expanding royalties. Company-owned shops number 138 in the UK, 161 in North America, 153 in continental Europe, 49 in Australia and only 22 in Asia. Given relative populations, there is clear potential for expansion in North America and Europe and particularly Asia. The firm completed a new warehousing system in Memphis during the year and this dramatically increased US capacity, but even this has not been able to keep pace with demand in recent months – a measure of the overseas growth potential.

"A new warehouse system in the US has been unable to keep pace with demand"

The big online sales increase has also strained the company's systems and so a major IT project has been started to upgrade and enhance the website and its customer experience. This should grow sales further. Other online ventures include an eagerly awaited new subscription service called Warhammer+, which launched this week.

Exploiting intellectual property

Finally, Games Workshop already has a vast range of books and audio books to accompany the wargames. But the firm plans to invest in getting this rich intellectual property in front of new audiences beyond the table-top gaming market. Licensing has good growth potential with nine video games launched during the year and another 15 under development.

Other projects are under discussion with the entertainment industry, ranging from Hollywood studios to the Japanese animation sector. In 2019 Games Workshop and Big Light Productions announced that Frank Spotnitz (who produced *The Man in the High Castle* and *The X-Files*) will be executive producer of a new live action *Warhammer* TV series. A whole new area can now be mined to increase royalties.

A very robust and fast-growing business

Games Workshop has more than doubled its revenue over the last four years and enjoys high operating profit margins of 43% of sales. Its performance during the pandemic has also demonstrated that it is a remarkably resilient business.

Revenue for the 2018/2019 year (ie, ending May 2019) was £256.6m. This rose slightly to £269.7m for 2019/2020, followed by a stronger increase of 31% to £353.2m for 2020/2021. Given that many of the company's shops were closed for much of this time, that's an impressive result. Operating profit was £81.2m for 2018/2019 rising to £90m for 2019/2020 and then increasing 68.6% to £151.7m for 2020/2021. Free cash flow was £103m with net cash at the end of the year of £85.2m.

The company has consistently increased earnings per share (EPS) faster than revenue. Revenue was up 62% from 2016/2017 to 2018/2019 ,but EPS was up 114%. For 2018/2019 to 2020/2021, the figures were 38% (revenue) and 84% (EPS). If revenue were to rise by another 38% to 2022/2023 and EPS increase by 70%, then EPS would then be 634p. The price/earnings (p/e) ratio of 31.9 at the recent share price of 11,670p would then drop to 18.4 for 2022/2023. With dividends of 235p declared for 2020/2021, the current yield is 2.01%.

Outsourcing is here to stay and it's getting better – so buy in

Outsourcing has seen more than its fair share of blunder and scandal, to the benefit of neither shareholders nor voters. Yet slow but steady improvements mean now may be the time to invest, says Jonathan Compton

It seems absurd now that in the second half of the 20th century the main business of government – apart from the military and emergency services – was to own and operate businesses. Yet this was the legacy of total government control during World War II, allied to a subsequent explosion of the state's role in social security, health and education (still the three largest areas of government expenditure today).

Hence it largely owned and operated almost all public transport, trains, planes and buses, coal mines, steel mills, the docks and harbours, telephony, radio and most TV. It controlled over 95% of all electricity, gas and water production, became (briefly) the largest car manufacturer, the largest shipbuilder and the dominant housebuilder. At the local level councils were big business, in home and office building, utilities, recreation, rubbish collection and sewage. Some even owned pubs, breweries and theatres.

The problem was simple. Central and local governments are incompetent when it comes to running businesses. As a result, between the mid-1960s and early 1980s a common moniker for Britain was "the sick man of Europe". Something had to give.

A Conservative government was elected in 1979 after a wave of high inflation, low growth and massive industrial unrest. It saw outsourcing as the silver bullet to improve growth and productivity while also meeting the ideological aims of breaking the power of union – which, whatever your politics, had become a state within a state – along with smaller government and a leaner civil service. Modern outsourcing was born.

The birth of outsourcing

The initial steps were timid, selling shares in the old empire-wide telephone company Cable & Wireless (most of which has since been bought up by a variety of companies) and the aeroplane manufacturer British Aerospace (now BAE Systems, a top-ten defence company globally). These experiments and further electoral success opened the way for a mass sell-off of profitable businesses – starting with British Telecom in 1984 – and the closure of those that had lost their comparative advantages, such as steel, mining and shipbuilding. And most unusually, the world followed the UK's example.

Alongside these headline-grabbing sales, local authorities and government departments were cajoled or coerced via funding cuts to imitate the "modern" private sector. (The inverted commas reflect the fact that pre-war, many giant corporations attempted to control the entire supply chain. The best example was Henry Ford, who tried to own the car-manufacturing process from rubber plantations – for tyres – to steel mills. Despite booming sales, he was narrowly saved from bankruptcy by military contracts in World War II.) Slowly, functions once viewed as core – such as payroll or rubbish collection – were farmed out.

"The first signs of long-term problems appeared under the New Labour government"

Perhaps surprisingly, the Great Leap Forward and the first signs of long-term problems happened under the Labour government of 1997-2010. It took the good and bad smaller experiments and went for broke, most infamously in private finance initiatives (PFIs) and also involving public private partnerships (PPPs), again – to their cost – widely imitated overseas.

The ideology was simple: "choice and competition" would spur efficiency and performance across the public sector, provide better value for money and by a sleight of hand, keep rapidly rising borrowing "off balance sheet", thus making government debt look artificially low. But PFIs proved disastrous. In 2006, St Barts Health Trust, the largest in England, signed a near-£1.2bn PFI contract. By the time it ends the cost will end up being more than £6bn. Overall, the £13bn of PFI funding for hospitals for NHS England will end up costing £80bn by the time the last contract ends in 2050. PFIs were not confined to hospitals, but included many other areas from schools to street lighting. In 2018 the now-Conservative chancellor, Rishi Sunak, announced the end of new PFI contracts, but the damage has been done and the same chancellor pledged to re-brand PPPs instead – similar structures under a different name.

Outsourcing blunders are plentiful

Health and school-related PFIs gave outsourcing a bad name in terms of value for money and the instances of outsourcing blunders would fill a library. One report by Reform, an independent think-tank, analysed investigations by the National Audit Office (NAO), Parliamentary select committees and other statutory bodies on £71bn-worth of outsourcing contracts between 2016 and 2019. Of this, £14bn was found to have been entirely wasted (the report did not analyse whether the other £57bn represented good value).

The largest single cause of waste was the Ministry of Defence (MoD), which accounted for 27% of the total, including a 17-year delay in decommissioning nuclear submarines and a failed army recruitment scheme (run by Capita). The MoD has serious form when it comes to wasting money; my favourite remains the Eurofighter/Typhoon aircraft. At the turn of the century the MoD/RAF decided to save money on its £105bn order by removing the nose cannon as it was considered outdated. Even to a layman, a fighter without a gun is a bizarre decision at the best of times. But it so changed the aerodynamics that they then had to put concrete in the nose. This made the dynamics worse, so eventually the cannon was reinserted, but so much money had been wasted that the order had to be more than halved, seriously affecting the UK's air defence capabilities.

Reform also highlighted some smaller losses – though still huge sums of money. Learndirect, an adult education and apprenticeships quango, was privatised in 2011. The main beneficiaries were the new private-equity owners, an arm of Lloyds Bank, who extracted tens of millions of pounds. The programme was damned in an Ofsted report, but £105m of funding continued from the Department for Education.

High-profile outsourcing blunders do little to instil public trust – such as the 2012 London Olympics incident, when the army had to be drafted in after G4S couldn't deliver sufficient security personnel. And in 2016, 17 privately built schools in Edinburgh had to close because of "unsafe defects", an odd euphemism

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When outsourcing goes wrong, sometimes the public sector has to pick up the pieces

for walls falling down. Another G4S blunder in 2017 was its running of immigration centres which were deemed "chaotic, incompetent and abusive".

Outsourcing now accounts for a third of the government's annual budget (pre-Covid-19) at just under £300bn. In practice we have come full circle – the government is yet again running businesses, but this time at one remove by outsourcing. It seeps into every part of our lives. Your passport is effectively issued by French company Atos (better known perhaps for wrongly assessing 158,300 disabled and sick people as capable of work thus losing their benefits between 2010 and 2013; it is now embroiled in its own "accounting errors" scandal). Until 2015 driving licences were effectively issued by big computing companies. So great was the mess that the DVLA (the car-licensing authority) bought the IT back in house, but now delays, incompetence and strikes dominate.

Far more important is the outsourcing of catching criminals. There were 5.8 million crimes reported in England and Wales last year, of which 730,000 (13%) were fraud offences, over 80% committed online. But the telephone-operated Crime Survey and senior police investigators estimate there were more like 4.3 million fraud offences, making it far and away the dominant criminal activity. Do the police hunt down fraudsters? No. It is outsourced, until recently to private US company Concentrix (despite its poor record of delivering on other outsourcing contracts). Staff frequently failed to file (ie, binned) crime reports. Fewer than 5% of all crimes came to court. The overall conviction rate was below 1%. Only one in 700 scams resulted in a conviction (down 62% over the last decade); this is not surprising, given that fewer than 1% of police officers investigate fraud despite the number of cases quadrupling since 2017. Thus the largest and fastest-growing area of criminal activity has effectively been ignored by both the police and government – outsourcing at its very worst. (The police are now tendering for new "partners" rather than trying to find the criminals.)

Yet outsourcing is here to stay

However, for all the greed, incompetence and many blunders, outsourcing is here to stay. Not only are the current government and prime minister especially obsessive about further expansion, but there is also, as previous Labour administrations discovered, no choice. The role of government has become so complex that it simply cannot be managed internally. Nor should it be – it's worth remembering that when government ran businesses directly, the outcomes were usually dire. Having a telephone connected could take weeks; British Rail was a staple for comedians. Gas or electricity breakdowns were common, repairs slow. Water supplies could be erratic, while sewage as often as not was simply dumped in rivers or at sea, only to wash up on the beaches. (Hence after the UK joined the European Union, we were found to have the dirtiest beaches in Europe.)

Moreover, there have been many outsourcing successes. Most important, and for all the many

Continued on page 20

"When the government ran businesses directly, the outcomes were dire"

Continued from page 19

government reports that are nauseatingly self-serving, outsourcing would appear to have resulted in considerable savings overall. These were initially very large, often 20%-30% cheaper than when managed by central or local government. Litter collection has improved dramatically. Private prisons have delivered lower costs and often better conditions. Many simple tasks, once considered core, are now routinely and more effectively outsourced, such as payroll and HR. Outsourced IT has a chequered history, but unnoticed in many areas it has improved services. National Savings & Investments (premium bonds and savings products) was outsourced to Siemens – the savings have been considerable and the service much improved. Even the NHS, one of the world's most cumbersome bureaucracies, has achieved considerable savings by outsourcing many areas to private providers. Indeed, in residential care, a perennially controversial topic, in many cases private suppliers have been found to provide at least the same level of cover as state-funded operations, but at a lower cost.

Three key lessons for successful outsourcing

Where outsourcing failed it was usually the result of three gigantic errors. First, the private firms were often out of their depth and greedy. An ex-director of one outsourcer told me years ago that the instruction was always to submit the lowest bid, find cheap external expertise afterwards, then hope to squeeze the agreed price higher by bolting on "unforeseen problems" requiring a higher fee. The results of this reckless approach can be seen in the companies themselves.

All of what were once the "Big Six" outsourcing firms – Amey, Capita, Serco, Interserve, G4S and Carillion – have had a torrid history. From 2009 to 2018 only one briefly had a profit margin over 10% (Capita). Two – Interserve and Carillion – went bust. After decades of incompetence and lousy returns for shareholders, G4S was put out of its misery when it was bought by a US company earlier this year. Amey was taken over by Spain's Ferrovial (which is now keen to get rid of it as soon as possible, leaving just two, both of which, until recently, have been battered. But they, and new entrants, are learning: firstly, to price contacts and risks sensibly and not to leap into areas where they have little expertise; and secondly, to walk away from badly drafted or woolly tenders.

The second error was the utter lack of expertise in the commissioning bodies. Politicians, civil servants, generals and doctors are simply not trained in drawing up complex contracts, especially in relatively new technologies such as wind farms or IT, so inevitably got it wrong. Much derided though the use of consultants has been in aiding the drafting and implementation of these contracts, without them the list of disasters would be longer still.

Carillion: a high-profile outsourcing disaster

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The third and most important error has been the emphasis on the price. Government rules rightly dictate "best value", but this was taken to mean "cheapest". As commissioning bodies slowly learn, they have become better at actually looking at what is being offered. So outsourcing is slowly getting better, although there is far to go. I have avoided discussing the incompetence, waste, theft and nepotism that has occurred during the pandemic – that chapter is still being written. But, ever the optimist, I believe this large bump in the road will prove an exception in an otherwise improving trend.

The final stumbling block remains Parliament itself. There is no single body empowered to look over contracts, the suppliers, or to enforce the often clear findings from the National Audit Office and other bodies. Until that happens, expect more "unexpected" blunders. Meanwhile, given that outsourcing is set to expand even further, and as the terrible history and returns from outsourcing companies look set to reverse, investors can reasonably expect to profit from the largest area of government expenditure. I look at four companies that look well-placed to benefit below.

"Outsourcing does appear to have resulted in considerable savings"

Four companies set to profit from outsourcing

There are various infrastructure investment trusts that – in practice – give exposure to outsourcing. Several are very well managed, but currently trade at very large premiums – and I cannot recommend buying hope instead of assets. Thus it comes down to individual stocks.

By far the best (which I bought last year) is the once rightly derided **Serco Group (LSE: SRP)**. Under its chief executive, Rupert Soames, the company has gradually sloughed off its loss-making contracts and turned away from riskier or lower-margin business. The recent half-year report to June showed a 20% increase in revenue and a 31% rise in operating profits. Most importantly, free cash flow soared by 61%. The balance sheet and business are finally safe. Providing services during the pandemic temporarily helped to boost revenue, but even so, full-year profits are expected to increase by 10%, putting it on a price/earnings multiple of just seven. Meanwhile, dividends have been resumed.

Lower quality – not least because debt and legacy contracts remain a problem – but also a major recipient of government largesse is **Mitie Group (LSE: MTO)**, which acquired the bankrupt Interserve. Last financial year saw unimpressive numbers, but a strong improvement in the second half, with a 95% increase in operating profits, although still a small loss at the earnings-per-share level. Assuming that it bought out Interserve as cheaply as it appears, it's an interesting recovery play – but I wouldn't bet the farm.

I wrongly recommended **Babcock International Group (LSE: BAB)** last year – as the share price then fell steeply and it continues to suffer from too much debt and negative free cash flow. The results to end-June showed a whopping £1.6bn loss and a further £2bn of impairment charges. However, the turnaround plan from the new CEO David Lockwood appears to be on track and its role as a major supplier of defence infrastructure seems secure.

Better was my recommendation of **Sage Group (LSE: SGE)**, which provides accounting and business-management software. The weakest part of its business model has been its slowness to grasp both the opportunity and necessity of moving into cloud-based systems, but it now appears to be catching up. In the trading update for the nine months to end-June, "cloud" income rose by 7% and equally important, "subscription penetration" (ie, longer-term contracts as opposed to one-off package sales) rose to 69% from 64%. Sage will never be high-tech, but it has a strong niche position in tech services.

Get ready to leave the US stock party

There are signs of overexuberance and investors should be careful not to outstay their welcome, says Edward Chancellor

The US stockmarket has entered a highly speculative phase. By most established investment metrics, the S&P 500 is close to an all-time peak. Yet valuation measures don't predict how long irrational exuberance might last. The credit cycle, on the other hand, does provide useful information. In the US, credit indicators are flashing somewhere between amber and red.

The notion of the credit cycle goes back at least to the mid-19th century and Victorian banker Lord Overstone. Given the financial nature of the modern economy, his insights appear even more relevant today. The Bank for International Settlements has developed a model which it claims helps to predict financial crises and economic downturns. The model measures the extent to which private-sector credit and home prices have departed from trend. By these measures, the US looks to be in dangerous territory. In May, the Case-Shiller National house price index hit a record high, up 16.6% over the year. The last time house prices rose this rapidly was in the late stages of the real-estate bubble. Nonfinancial credit in the US has also been expanding.

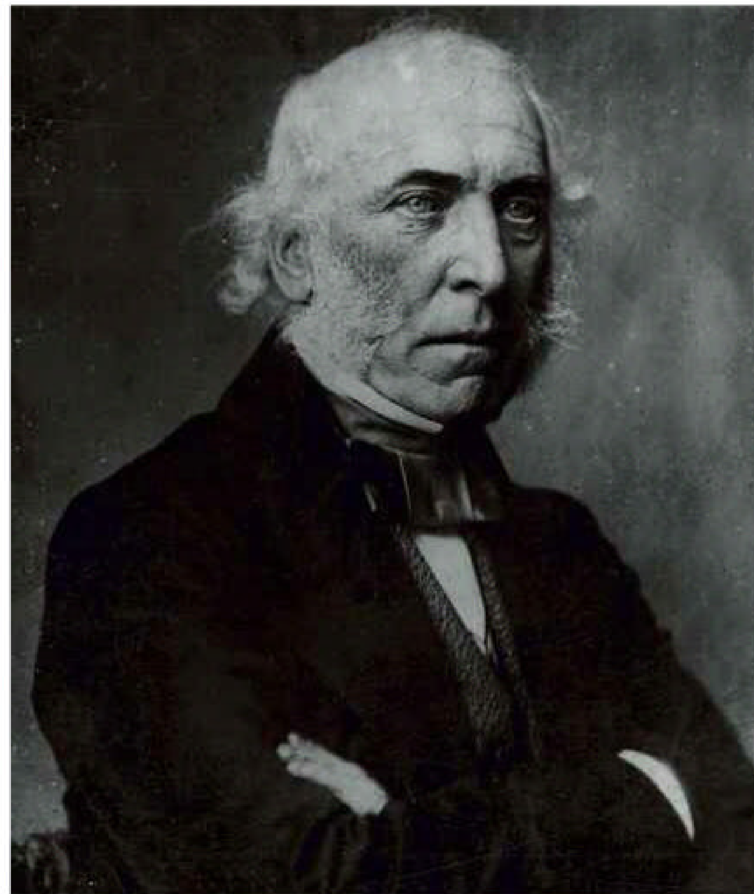
A flood of junk

Lending standards become progressively looser over the course of a booming credit cycle. In 2019, around a quarter of corporate bonds issued in the developed world failed to earn an investment-grade rating, according to the OECD. Since then, credit quality has continued to deteriorate. In the first quarter, a record amount of junk debt was sold in the US. High-yield bonds made up 27% of total US bond issuance this year – the highest in a decade, according to Standard & Poor's. Spreads on junk bonds have also tightened, falling to a ten-year low in early July. It's not just fixed-income investors that have relaxed their guard. The Federal Reserve's survey of senior loan officers reveals that banks have pivoted from extreme caution last year to relative abandon today.

Inflation surprises generally occur towards the end of the cycle when the economy is running out of slack. US inflation numbers are noisy and heavily influenced by transitory measures, such as the recent surge in secondhand car prices. The BIS observes that inflation hasn't been the main driver of the business cycle since the Fed under the late Paul Volcker tamed inflation nearly 40 years ago. Nevertheless, the fact that US consumer prices have been rising at a faster pace than at any time since 2008 is another worrying signal.

Not all financial indicators are flashing red, however. During credit booms, households and corporations tend to spend more than they earn. The British economist Wynne Godley was able to accurately predict economic downturns by looking at the extent to which households and businesses were running financial deficits. At such moments, the risk of a credit crunch, accompanied by severe economic disruption, becomes elevated. Prior to the 2008 subprime crisis, the private-sector financial balance was negative in several countries, including the US. Today, by contrast, US households and corporations are flush with cash – thanks in large part to large federal fiscal deficits.

"It's not all doom and gloom. Emerging markets are trading at lower valuations"



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Lord Overstone's insights are even more relevant today

The spread between short- and long-term rates is another common input into credit-cycle models. Past US recessions have often been preceded by an inversion of the yield curve when monetary tightening causes short-term interest rates to rise above the yield on ten-year bonds. In early 2006, for instance, the US yield curve inverted just as problems with subprime securities were emerging. The yield curve flattened again in 2018 after the Fed continued raising short-term rates. The subsequent stockmarket slump induced Fed boss Jerome Powell to rapidly change course. Although long-term US interest rates have fallen in recent months, the Fed funds rate remains pegged at zero. As a result, the spread between short and long rates remains in line with its average level over the past decade. Thanks to rock-bottom interest rates, another credit-cycle indicator, known as the debt-service ratio, which measures interest payments and debt amortisation relative to income, remains below average in the US.

Prepare for a rough ride

What should investors take away from these conflicting signals? First, it would be rash to assume that we are in the final stage of the market mania. It's possible that credit conditions will continue heating up for some time to come. Secondly, the financial system appears vulnerable to even a slight rise in interest rates. Despite today's low interest rates, the cost of servicing US corporate debt has reached its highest level in 20 years. US companies are more leveraged than at the time of the last financial crisis, and the quality of their outstanding debt is much lower.

Professional investors fret about leaving the party too early, but they must also be careful not to overstay their welcome. Work by the National Bureau of Economic Research suggests corporate bondholders face abnormally poor returns after periods when credit quality has deteriorated. The worst stockmarket returns have occurred at times, such as 1929 and 2008, when both market valuations were elevated and the credit cycle had overheated. Those conditions obtain in the US today. Investors may be in for a rough ride when things finally turn. It's not all doom and gloom, however. Emerging markets are currently trading at lower valuations and their financial cycle is not unduly elevated. Their party probably has longer to run.

This column first appeared on Breakingviews

The secondhand car boom

A new-car shortage is forcing car buyers to turn to the used market

Alex Rankine
Markets editor

Getting your hands on a new car today is "about as difficult as trying to buy a four-pack of toilet paper a week into the coronavirus pandemic last year", says Rob Hull for This Is Money. The global computer chip shortage means that the waiting time for some new models now runs from five months to over a year. Now that pressure is carrying over to the secondhand market, with average prices for used cars rising 14% year-on-year in July, according to Auto Trader.

"Buying a used car can feel like a minefield", says Will Kirkman in The Daily Telegraph. Legally, cars sold by a dealer must be "of satisfactory quality" and "fit for purpose". Private sellers, by contrast, are merely obliged to sell a vehicle that is "roadworthy". A car with outstanding finance or that has been written off in Category A (scrap only) or B (body shell must be scrapped) cannot be legally sold. Keep a copy of the original advert in case you need to later prove that the vehicle is not as described. However, going to court is an expensive hassle, so do your research to avoid any problems. Verify the car's MOT history at gov.uk/check-mot-history and consider paying for a check from a company such as HPI that will tell you about outstanding loans or whether the vehicle has been stolen or written off.

Pre-pandemic, less than 1% of used cars were sold online but that is changing fast. From online listing sites to a new generation of retailers that let you order a vehicle to your door much as you would an Amazon package, digital disruption is finally coming for cars. Traditional dealerships are also changing, Umesh Samani of the Independent Motor Dealers Association tells The Times. "With the internet everyone can see the price of each model so dealers have to offer a competitive price in the first place... Haggling is disappearing because everything is so transparent."

> *"Used car prices rose 14% year-on-year in July"*

How to sell

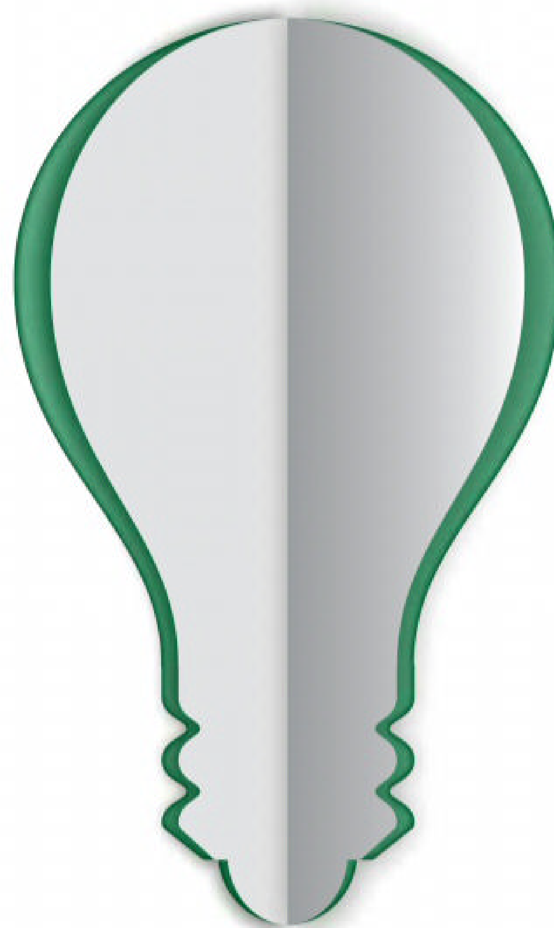
If you want to sell, the quickest approach is to use an online car buying service, such as We Buy Any Car or Cazoo. By entering a few details into a website a seller can quickly get a valuation for their vehicle. But you pay for that convenience. "Our undercover research... found that five out of six of our mystery shoppers would have been better off selling to a dealer – in one case, by over £2,000," says Adrian Porter of Which. A private sale is "almost certain" to net more for the seller. And be aware that online valuations from car buying services can be cut once the vehicle has been inspected, says Andrew Charman for The Car Expert.

Many used cars are now sold online

©Stockphotos

Private sales have come a long way from the days when you would "park the car outside your house with a 'for sale' notice in the windscreen and hope for a buyer to magically appear". Many sales now take place through the online marketplaces, most of which leave buyers and sellers to sort out the details between themselves. "Online bank transfers are the best way to get paid, and these can be done quickly via the Faster Payments or CHAPS systems," says Auto Trader. If you don't want to hand out bank details then "cash is an alternative, but... arrange for the handover to happen at a bank", where the staff can count the notes and make sure they are genuine before you hand over the keys.

PAPER POWER



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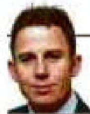
Pension change hits expats

New rules in 2022 will affect some expats who hope to retire to Europe



David Prosser
Business columnist

Thousands of UK nationals planning to move to a European Union country during their retirement could receive lower pensions than expected because of new rules introduced in the wake of Brexit. The changes will potentially impact the state pension of anyone who has spent time during their working lives in Australia, Canada or New Zealand.

To qualify for the UK's state pension, you will usually need to have made at least ten years of national insurance contributions – and paid in for 35 years to qualify for the full amount, worth £179.60 in the current financial year. Assuming you meet these criteria, you can claim the benefit wherever you live in retirement – and anyone moving to an EU country in the future will still be able to claim their UK state pension entitlement.

Rules change

However, those who work overseas prior to their retirement may struggle to build up a national insurance record. And while the UK has reciprocal arrangements with many countries that allow social security contributions made there to count towards a national insurance record back home, the rules on these will change from 1 January 2022.

From that date onwards, UK nationals who move to an EU country will no longer be able to count periods working in certain countries towards their national insurance records. In particular, time spent in Australia, Canada and New Zealand will no longer boost your UK state pension entitlement if you move to the EU.

Flinders Street Station, Melbourne: time spent in Australia may affect your pension

©Alamy

> *"Time spent in many countries will not count if you move"*

So, for example, someone with 35 years of national insurance contributions who moves to Spain today can look forward to a full state pension from the UK, even if 20 years of that record came from stints working in Australia. But the same person moving to Spain from January onwards would only have 15 years' worth of eligible national insurance contributions – their state pension entitlement would therefore be significantly lower.

Importantly, the changes only affect people moving after 1 January. If you already live in an EU country, your entitlement to a UK state pension will not be affected, even if you have yet to begin claiming it.

Annual increases will stay

Nevertheless, pension experts warn many people may be caught out by the new rules, qualifying for smaller pensions than they had expected. Significant numbers of Britons have spent time working in Australia, Canada and New Zealand; their state pension is now at risk if they opt to move to the EU later in life.

More broadly, however, Britons moving to the EU are in a stronger position than those retiring elsewhere. Even after Brexit, EU-based Britons will continue to be entitled to the same annual increase in their state pension as pensioners living in the UK. By contrast, ministers continue to refuse to change the rules governing Britons retiring to countries including Australia, Canada and New Zealand, where your UK state pension entitlement is frozen at the rate payable in the year you begin claiming.

Young savers need to take more risk

Will your pension savings come up short because you're not pursuing a sufficiently risky strategy? Research from investment platform Interactive Investor suggests 66% of savers aged between 18 and 39 are pursuing low- or medium-risk investment strategies with their pension funds, avoiding the stockmarket for fear of losses. More than half of those surveyed believed that a medium-risk strategy is likely to deliver the highest long-term returns.

While savers may be nervous about taking on additional risk, Interactive Investor argues that in the past at least, higher risk portfolios with a larger proportion of exposure to equities have proved more likely to deliver higher growth over the long term. Such funds may be more volatile over shorter-term periods, but younger savers have more time to recover from market setbacks.

Those who take more risk still have the option of switching into less risky assets as they get closer to retirement. However, even this might not be the right choice for some savers, with increasing numbers of people opting for income drawdown plans in retirement where they continue investing their savings with the aim of further growth.

Pick pensions carefully to keep a lower retirement age

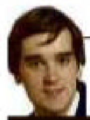
- Take action now if you're determined to start cashing in your pension savings at age 55, despite a rise to 57 in the minimum age at which you may do so. While this change takes effect from 2028, the government has confirmed that anyone joining a pension scheme before 5 April 2023 that allows savers to access their money at 55 will be able to begin withdrawing money at that age – even if they don't reach 55 until after 2028. At the very least, would-be early retirees need to check their private pension schemes. While some will not be changing the minimum age rules until the law changes, others are increasing their access age to 57 straight away.

- The UK's state pension is among the least generous in the developed world, new analysis by the OECD reveals. Its research says the UK's state benefits are worth just 28% of average earnings after tax – the lowest level payable by the 36 countries that belong to the organisation. The average OECD country offers 59% of average earnings, with top payers such as Austria, Luxembourg, Portugal and Turkey paying more than 90%. However, the British government argues that the analysis overlooks other pension benefits earned by Britons, including pension contributions that the UK requires employers to make on workers' behalf.

- The UK's tax rules continue to catch out pension savers, with more than 7,000 Britons receiving a tax rebate during the first three months of the year. HM Revenue & Customs made the pay-outs because of an anomaly in the tax system: when people first make withdrawals from their pension funds in retirement, they are charged emergency rates of tax because HMRC does not have a clear picture of how much cash they will take on an ongoing basis. Pension experts urge savers to check whether they are owed refunds – and to avoid the problem in the first place by making only token withdrawals when accessing their pensions for the first time.

The GP will see you now

And that's bad news for this telemedicine company



Matthew Partridge
Senior writer

The past 18 months has been a turbulent time for many technology shares. One that has experienced both highs and lows is Teladoc Health (NYSE: TDOC). In January 2020 it was trading at around $83 a share. By the start of March, as the coronavirus started to spread around the world, it had risen to $124. It continued to climb until it peaked in February this year at just under $300. However, since then, Teladoc has dived, more than halving in value to its current level of $140. So will it bounce back, or continue falling?

I believe the latter is more likely. As you'd expect, the company, which was set up to save customers time and money by providing on-demand online medical consultations, has indeed benefitted from the closure of doctor's surgeries during lockdowns. Indeed, revenue nearly doubled from $553m in 2019 to $1.09bn in 2020 – and is expected to reach $2.1bn next year. However, the company now faces some big problems.

Growth is set to slow

Firstly, effective vaccines have allowed most developed countries to wind down restrictions, meaning that patients should be able to see their doctors in person. What's more, the rise of remote healthcare during the pandemic is a double-edged sword for Teladoc. Firstly, it has shown that remote consultations are at best an imperfect substitute for traditional ones – one study by the University of Michigan suggests that it doesn't actually save money once you factor in the extra costs of the extra hospital visits caused by faulty diagnoses. What's more, Teladoc is no longer unique in the service it offers – many healthcare systems simply use other remote communication methods such as Zoom or even old-fashioned phone calls. As a result, it's not surprising that Teladoc's revenue growth looks set to slow to around 10%-20% a year, and it could slow even more if rivals start stealing market share.

Another big problem is that Teladoc isn't making any money. It lost $485m in 2020 and is expected to lose $521m in 2021. While it is optimistic that margins will improve as the company scales up, it is still expected to lose $198m in 2022, double its loss in 2019. Given this, it is hard to see why it is trading at a whopping ten times 2021 sales. By comparison, Alphabet, a technology company which not only has a similar 20% growth rate, but is also a market giant and actually makes money, trades on eight times sales.

Teladoc shares fell by nearly 10% in the last month, suggesting that the market is continuing to sour on the company. That makes now a good time to go short. I'd suggest you short it at the current price of $140 at £14 per $1, covering your losses if it goes above $210. This gives you a total potential downside of $980.

How my tips have fared

This has been a good week for my four active long tips, which have all risen, albeit by small amounts. Media group ITV rose from 114p to 115p. US homebuilder DR Horton climbed from $94.21 to $94.63. Construction firm Morgan Sindall increased from 2,324p to 2,510p. Spread betting firm Plus500 also gained, up from 1,389p to 1,498p. However, both broker TP ICAP and US homebuilder PulteGroup remain below the level at which I suggested you should go long. Overall, my long tips are making a total profit of £3,884, up from a fortnight ago.

My five short tips have put in a mixed performance: three have gone down and two increased in price. Cloud computing firm Snowflake fell from $280 to $276; electric car company Plug Power slipped from $28.18 to $25.32; while electric car company Tesla also fell from $731 to $706. However, digital currency bitcoin jumped from $45,866 to $49,615 and cinema chain AMC rose from $33.80 to $36.78. Overall, the gains from the falls on Snowflake, Tesla and Plug Power have outweighed the losses on bitcoin and AMC, and the net profits on my short tips have increased slightly from £53 to £112.

Going forward I have ten active tips: four longs (ITV, DR Horton, Morgan Sindall, Plus 500) and six shorts (Snowflake, Plug Power, Tesla, AMC, bitcoin and Teladoc). I also have two long tips in the form of TP ICAP and PulteGroup, which haven't yet reached the level at which you should start going long. While this is a reasonable balance. I would suggest you lock in some profit by raising the stop loss on Morgan Sindall to 1,750p (from 1,300p). I would also recommend that you cover your Snowflake and Plug Power shorts to $350 (from $390) and $40 (from $55) respectively.

Trading techniques... after-hours trading

Gordon Gekko may have said that money never sleeps, but most stock markets have official trading times. For example, the London Stock Exchange (LSE) is officially open from 8am to 4.30pm, with a two-minute break after noon. Others have even shorter hours. The New York Stock Exchange (NYSE) runs from 9.30am to 4pm, while the Tokyo Stock Exchange runs from 9am to 11.30am, before reopening from 12.30pm.

As a result, companies tend to time any important announcements for before the market opens, or after it closes, to give investors as level a playing field as possible.

Still, some trading does take place outside those hours. Both the NYSE and the Nasdaq in the US allow pre-market trading between 4am and 9.30am and after-hours trading from 4pm to 8pm. The LSE has a short pre-market session from 5.05am to 7.50am and a brief after-hours trading session between 4.40pm to 5.15pm.

It's also important to note that while individual shares may have specific hours, stock indices themselves trade nearly 24 hours a day, because they are based on contracts traded on futures exchanges.

However, it's important to note that during pre- and after-market sessions, trading in individual shares takes place mostly between financial institutions. While some brokers and spreadbetting firms (like IG Index) are now offering access to after-hours trading on some US shares, stop-losses do not generally apply to after-hours trading (the one exception being IG Index's guaranteed stops).

Overall, after-hours trading is only for experienced traders. This is because the reduced liquidity means that prices are not only more volatile than during the day, but the spreads between the buying and selling price are much wider than during normal times.

©Teladoc

Protecting your income from rising inflation

Professional investors tell us where they'd put their money. This week: Alastair Laing and Peter Spiller, co-managers, Capital Gearing Trust, pick three stocks with long-term inflation-linked revenues

After decades of quiescence, inflation appears to be rearing its head once again. With interest rates likely to remain well below inflation for many years, savers face the dismal prospect of ever-diminishing purchasing power.

At Capital Gearing Trust, we focus on protecting the value of our clients' wealth in real (after inflation) terms. There are a number of tools that we use in pursuit of that aim, including substantial investments in inflation-linked bonds. We also focus on specialist equities, typically investment trusts and real estate investment trusts (Reits), which benefit from long-term inflation-linked revenue streams. These are three examples from the infrastructure and specialist property trust sectors.

Long-term cashflow from infrastructure

International Public Partnerships (LSE: INPP) is an FTSE 250 investment trust that holds stakes in over 100 public infrastructure projects in a range of sectors. Its areas of focus include electricity transmission, transport and education. Recent new projects include subsea transmission cables linking UK offshore windfarms to the electricity grid.

Project revenues are regulated or backed by government contracts, and are long term with a weighted average life of 32 years. The portfolio enjoys substantial inflation protection: the managers estimate that portfolio returns increase by 0.8% for every 1% of inflation. This results in a well-underpinned 4.2% dividend that has historically grown by at least 2.5% per annum regardless of the economic environment. If inflationary concerns start to escalate, these secure inflation protected cashflows should be valued at a significant premium.

Affordable inflation-linked rents

Residential Secure Income Reit (LSE: RESI) has two principal assets within its portfolio: retirement flats and shared ownership accommodation. The retirements flats are let to elderly residents on affordable rents which rise in line with the retail price index (RPI) each year.

Shared ownership accommodation involves the trust selling a share of residential properties to homebuyers and then renting to them the balance of the house. The purpose is to help house buyers take ownership of properties they would otherwise be unable to buy.

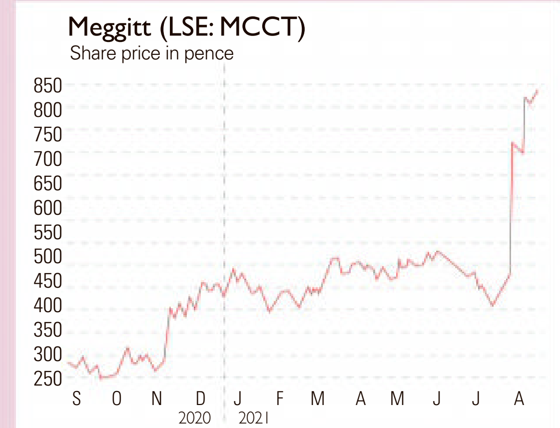
The trust is able to secure grant funding from the government which it uses to ensure the rental charge is affordable. These rents also rise in line with RPI. The combined effect results in a high-quality income stream that enables it to pay a 4.7% dividend that should rise in-line with inflation.

> *"Savers face the prospect of ever-diminishing purchasing power"*

Uncapped RPI-linked leases

Secure Income Reit (LSE: SIR) holds a portfolio of high-quality assets on long leases including leisure assets leased to theme parks, private hospitals and hotels. Other similar trusts trade on significant premium to their underlying asset value, but Secure Income Reit trades at only a modest premium. A majority of its long leases are linked to RPI without any caps, which could prove very valuable in the event of a serious surge in inflation.

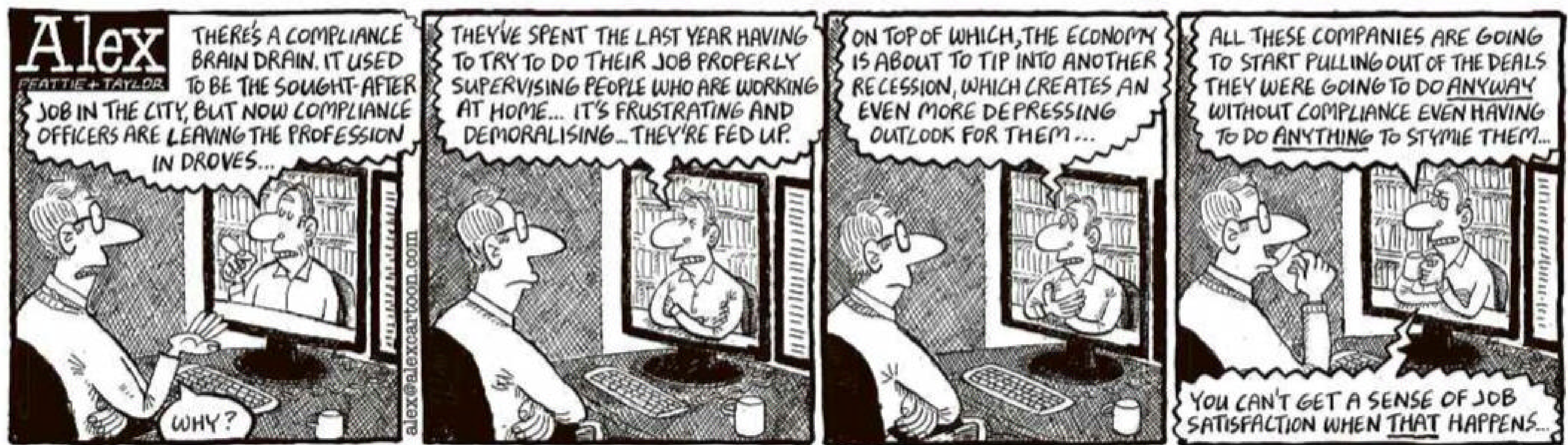
If only you'd invested in...



Aerospace components manufacturer **Meggitt (LSE: MGGT)** jumped this month after Parker Hannifin, a US-based rival, agreed a £6.3bn takeover that valued Meggitt's shares at a 71% premium to the previous closing price. To allay concerns about the takeover and reduce the chance that the UK government will block the deal, Parker Hannifin has pledged to protect jobs at the firm for the next five years. The news came as Meggitt reported half-year pre-tax profits of £33.6m from revenues of £680m, compared to a loss of £368.4m in the same period a year ago. The shares are up 147% in 12 months.

Be glad you didn't buy...

Biotechnology firm **Avacta (LSE: AVCT)** is developing cancer immunotherapies and diagnostic tests for diseases including Covid-19. Its shares surged 1,100% in the 12 months from March 2020, but have since given back some gains (although they remain well above where they were before the pandemic). The company has begun shipping its AffiDX SARS-Cov-2 lateral flow test in the UK and Europe and is in talks with additional distributors. However, even after a 40% fall in the share price, its market cap of £320m is pricing in a lot of growth for a loss-making firm with forecast sales of just £4.3m in 2021.



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The mob's unfinished business

A social-media pile-on nearly wiped out hedge funder Gabe Plotkin back in January. The fight is not over yet. Jane Lewis reports

Since the start of February, Gabe Plotkin's Wall Street hedge fund, Melvin Capital, has put on 25% – a pretty respectable showing, says Hedge Buster. All the more so given its near-death experience during the GameStop trading furore in January, when Plotkin and his fund looked like being wiped out by what some have dubbed "the greatest short burn of history".

©Getty Images

"'Consider it the first head on a pike,' was one of the more printable quotes in a venomous outpouring"

A stockmarket insurrection

It was certainly one the ugliest, says the Financial Times. In a few frenzied weeks, an army of amateur traders, coordinating their actions on the social-media platform Reddit, ruthlessly took their target down – piling into the languishing video-store chain's stock (at one point up 120-fold in a year), putting a lethal squeeze on those who had bet big on its collapse. Melvin lost billions, forcing a desperate Plotkin to seek a bailout from peers. But what shocked Wall Street most was the implied violence. "Consider it the first head on a pike," was one of the more printable quotes in a venomous outpouring which, as Plotkin later noted, was "laced with antisemitic slurs". To some, the timing of the attack – barely a fortnight after the Trump-inspired march on Capitol Hill – seemed no coincidence, says Institutional Investor. According to one hedge funder, Plotkin's tormentors were "the stock version" of the "insurrectionists".

The view from the other side was that a reckoning was way overdue, says The Sunday Times. Long before being cast as a "pantomime villain" in the GameStop saga, he was in the sights of Wall Street opponents due to his close connection with one of its most famous "Wolves" – the notoriously extravagant hedge-fund titan, Steve Cohen. Talked up as "a young man on the make" in the years before the financial crash, Cohen put Plotkin in charge of a $500m pot at SAC Capital, where he generated hundreds of millions in profits while recession "laid waste to the economy" – betting on, and often against, well-known stocks.

In 2010, the SEC regulator opened an insider trader investigation against SAC. But while some traders were "perp-walked" into prison, Cohen paid $616m (barely a dent in his multi-billion fortune) to settle charges without admitting guilt – becoming, to many, a symbol of "Wall Street's impunity". Plotkin, though mentioned in the trial, also escaped charges. When he left to set up his own firm, Melvin Capital, in 2014, "Cohen wrote his protégé a $200m cheque to get him off the ground".

The fallout from the blow-up

Publicity-shy Plotkin named his firm in honour of his grandfather. It's one of the few details about his private life on the public record beyond the barebones that he was born in Portland, Maine, graduated in economics from Northwestern university and (together with his wife Yaara) is a keen supporter of Jewish causes, notably the Chabad Israel Centre.

Ironically, it was a slip-up by the ultra-private Plotkin that led to the downfall of his $13bn fund, says Institutional Investor. He used "listed put options" to bet against GameStop which, unlike most short positions, must be disclosed on SEC filings. That was picked up by a Redditor called Stonksflyingup, who kickstarted the campaign last October by posting a video using an explosion scene from the TV show *Chernobyl* to show how Melvin would blow up. Within three months it had become a self-fulfilling prophecy.

Yet while his fund is still down by more than 40% this year (having more than halved in January), it appears that Plotkin is steadily clawing his way back, thanks in part to a $2.75bn rescue package involving Cohen's Point72 firm and Ken Griffin's Citadel fund. Indeed, that deal – which saw the pair receive a "three-year minority piece" of Melvin's revenue, reports Bloomberg – already appears to be paying off. Citadel is now reportedly planning to withdraw about $500m of its original $2bn investment from Melvin and the cash infusion "has turned profitable".

Great frauds in history... *Leopold Redpath's railway shares*

Leopold Redpath was born in Greenwich (now part of London) in 1816. He started his working life as a clerk, first with a law firm and then the Penisular and Oriental Steam Navigation Company. He later struck out on his own and became an insurance broker. His speculation with clients' funds, and general extravagance, led to bankruptcy in 1840. A few years later he took another job as a railway clerk, rising to the ranks of chief clerk in the registration department of the Great Northern Railway (GNR) Company.

What was the scam?

Redpath's job effectively put him in charge of GNR's share register (the list of who owned shares in the company). He took advantage of this to forge GNR share certificates, either by creating new ones or by altering legitimate certificates (which he had bought) to increase their value. Most of these were sold to other investors, though he kept some in order to receive dividends. With the proceeds, he bought a mansion in Regent's Park and acquired a reputation as a philanthropist.

What happened next?

By 1856 the directors of the company noticed that they were paying £5,000 more in dividends than they would have expected given the official number of shares. Troubled by rumours of Redpath's extravagant behaviour, which had reached levels it was hard even for him to explain, they investigated more closely, quickly uncovering the fraud. Redpath was arrested, put on trial in January 1857, and sentenced to transportation for life in Australia.

Lessons for investors

Redpath's frauds cost the GNR £220,000 (£21.4m in today's money), only some of which was recovered. Shareholders were furious with the auditors, who had actually praised the quality of the accounts shortly before the fraud was uncovered (some things never change). The Redpath fraud is a lesson in the importance of having good internal controls. After the fraud GNR, and other leading British railways, would require the shareholder registrar to be cross-checked by several people.

The best spots in Spain for foodies

From a classic tavern in Madrid to an exclusive Michelin-starred eatery in Ibiza. Chris Carter reports

An Everest of a stew

The food scene in Madrid is fabulous and good value, says Cathy Hawker in the Evening Standard. Start your explorations in a traditional tapas restaurant. Celso y Manolo (celsoymanolo.es/en) is "an intimate and relaxing *tasca* in a quiet side street in on-trend Justicia". With its 1950s floor tiles and thick marble-topped bar, locals and tourists in the know come for the mix of traditional and modern cooking. "Choose from fried calamari (*rabas*), slow-cooked casserole with octopus and mussels (*Cazuelita Marinera Cudillero*), melting *jamón ibérico* and the very finest tomatoes de España." It's friendly and fun.

Or why not visit a *castizo*? The term only applies in the capital, "and only to the city's most authentic, classic taverns", such as Malacatín (malacatin.com), says Stephen Phelan in National Geographic Traveller. "Lunch is *cocido madrileño*, a multi-platter stew that's Madrid's signature dish, but attempting to eat it in one sitting is like climbing K2 after a 'Couch to 5K'" (an exercise plan). This former backstreet wine shop has specialised in the dish since 1895, with the three stages (*vueltos*) consisting of a noodle broth, then chickpeas and tomatoes, followed by chicken, blood sausage, pig's trotter, etc. You can also opt to have it all piled up at once. "Either way, you'll have passed out face-down in salty oblivion before you ever reach the peak." In 125 years, only two diners have reached it.

Celso y Manolo: start your journey with some tapas

Lunch is the new night out

Ibiza's hedonism has been reined in by the pandemic and lunch has become the new night out, says Kate Spicer in the Financial Times. And Jondal (casajondal.es) is "the hottest ticket" on the Balearic island. For the past two summers, this beach joint has reigned supreme. In some ways, it is a *chiringuito*, "a feet-in-the-sand kind of place". But while the mood may be casual, make no mistake, "this is luxury of the best and most stealthy kind". Rafael Zafra, the chef and patron, had already earned two Michelin stars by the time he was 27 in 2008. The menu ranges from the simple and traditional, such as *cigalas al ajillo* (fried langoustine, where the fragrant oils and juices are used to fry eggs, peppers and potatoes) to more "cheffy" dishes, such as *langoustine carpaccio* with a halo of bronze onion confit. But you will have to be seriously well connected to be in with a chance of tasting either.

Hams like no other

The 140-year-old bodega of Ibérico ham producer Cinco Jotas (cincojotas.com) lies in "the sleepy little town" of Jabugo, northwest of Seville in the Sierra de Aracena and Picos de Aroche Natural Park of Andalucia, says Damien Gabet in The Sunday Times. It has white-washed walls that wrap around a Moorish-style courtyard garden, while down in the "immaculate Roman-arch cellars", hundreds of *pata negra* are maturing for a minimum of three years. These cured hams are spoken of in the same way that oenophiles talk about fine Burgundy. The "complex profile of cheesy, nutty butteriness" melts in the mouth, "leaving an umami flavour that lingers longer than a good Scotch", while the "moreish saltiness" is the perfect accompaniment to that other proud Andalucian product, sherry.

> *"I can't think of anything more appealing than tootling, and quite possibly also pootling, around the emerald hills and wild coast of Asturias"*

A cooler climate

The more savvy among Spanish holiday makers in the summer head for the north of their country, where you can spend the days outside without fainting from the heat, says Annie Bennett in The Daily Telegraph. And while the Basque Country, Cantabria and Galicia are all worth visiting, "I can't think of anything more appealing than tootling, and quite possibly also pootling, around the emerald hills and wild coast of Asturias". Dine on velvet crabs, monkfish and sea urchins, salmon from the rivers, and *fabada* stew with butter beans and *morcilla* sausage – and the seafood version with clams. Booking ahead at top restaurants Casa Marcial (casamarcial.es), Casa Gerardo (restaurantecasagerardo.es) and Güeyu Mar (gueyumar.es) is essential. (A seven-day driving tour costs from £550 per person, caminos.co.uk.)

Cinco Jotas: the Burgundy of cured hams

©Celso y Manolo; Conco Jotas; iStockphotos

This week: rural properties – from a contemporary house set in ten acres of arable land in Aughadown, Ireland, to an

Sheepwash Farm, Blackboys, Uckfield, East Sussex. A large house in a rural setting with landscaped gardens, a kitchen garden, paddocks, woodland and a small lake. It has a triple-aspect drawing room with an open fireplace and a large breakfast kitchen. 6 beds, 3 baths, 3 receps, study, stables, barn, 8.5 acres. £2.2m Knight Frank 01892-515035.

The Vine Farm, Northbourne, Deal, Kent. A small estate with a Grade II-listed Jacobean manor, a Grade II-listed, three-bedroom cottage and a period farmstead set in grounds that include a walled kitchen garden and a lake. 7 beds, 4 baths, 2 receps, library, study, atrium, outbuildings, 49 acres. £3.75m Strutt & Parker 01227-473700.

Beechbrook, Prohoness, Aughadown, Ireland. A country house built in 2007 in ten acres of arable land just over a mile from Roaring Water Bay. Eight acres are used as paddocks and the additional two acres would be ideal for beekeeping. The house has solid hardwood and quarry-slate floors, a bespoke kitchen and solar panels. 4 beds, 3 baths, recep, sun room, stables, outbuildings, outdoor arena. £508,891 Charles McCarthy +353 (0) 28 21533.

estate in Monmouthshire, Wales, with over 200 acres of grounds that include a Georgian house and a stock farm

Ty Newydd Farm, Pontarddulais, Wales. This detached family house overlooks the lakes at White Springs Fishery. The grounds include a vegetable area, woodland, grazing land and a small paddock ideal for keeping farm animals. It has exposed stone walls, a bespoke oak staircase, open fireplaces with wood-burning stoves, a large breakfast kitchen and a master bedroom with a balcony. 5 beds, 4 baths, 2 receps, greenhouse, 6.07 acres. £700,000+ Fine & Country 01792-367301.

Widehope Farm, Bildershaw, County Durham. A modernised, 1850s farmhouse with a two-bedroom barn conversion surrounded by open countryside. The house has open fireplaces and a fitted kitchen with an Aga. 4 beds, 4 baths, 3 receps, walled garden, paddocks, 4 acres. £995,000 Finest Properties 01434-622234.

Kirktonlees, Auchterarder, Perthshire, Scotland. A contemporary property built in 1996 with two sides set around a courtyard with a connected range of workshops situated in landscaped gardens and stock fields split by fences, stone dykes, ponds and woodland that provides a habitat for wildlife. 6 beds, 4 baths, 3 receps, library, kitchen/family room, lounge, offices, workshop, stable block, farm buildings, 100 acres. £1.95m+ Savills 0131-247 3738.

Great Campston, Abergavenny, Monmouthshire, Wales. A rural estate and stock farm with a Georgian house overlooking the Welsh Marches. It has a vegetable garden and farmland let on a ten-year tenancy, which provides additional income. 8 beds, 6 baths, 2 receps, kitchen, 2-bed cottage, 3-bed bungalow, gardens, greenhouse, tennis court, swimming pool, outbuildings, woodland, 275.52 acres. £4.5m Knight Frank 01173-171991.

Willys Well, New Milton, Hampshire. A Grade II-listed, thatched cottage with established gardens, a kitchen garden with a greenhouse and chicken run, fenced paddocks and direct access to the New Forest National Park. The house has beamed ceilings, an inglenook fireplace with a wood-burning stove, a fitted kitchen and a dining room with French doors opening onto the gardens. 4 beds, 3 baths, 2 receps, office, stables, garage, workshop, 6.9 acres. £1.3m Hamptons 01722-480142.

A sports car to bring a smile to your face

Morgan's latest model is as charming and as fun to drive as ever. Jasper Spires reports

The Morgan Plus Four is a marriage of Romantic charm and 21st-century comforts, built for weekends away to escape from the concrete hedgerows of city life. It is a veritable picnic hamper on wheels and every bit a personal indulgence. Snuggling down into the "leathery embrace" of the interior and "peering down the long cheese-grater vents on the bonnet", is a "unique, life-affirming experience", says Top Gear. The car is far from perfect and not without its idiosyncrasies. And it's certainly not cheap. "But throw back the roof, toss the windows and hang your elbow out over the thoughtfully padded door and all is forgiven." Every journey will be a special event.

Old-school charm

The Plus Four is slim and sleek, lightweight and charming, and easier to clamber into than similar sports cars, says Richard Lane in Autocar. And although this incarnation of the classic car comes with mod-cons such as a digital dashboard you can plug your phone into, there has not been too sharp a break with tradition. It still looks "stunning" and retains its "old-school charm" – Morgan's online "configurator" can help you choose which colours and options to combine to create the look you want – and it's fun to drive too, being "by no means unwilling or incapable of entertaining when driven quickly". It may lack polish and sophistication, but "it's hard to imagine Morgans' fans will care one jot – and that's surely what matters most".

Bringing delight to all you pass

In short, buy for an animated and excitable ride, but don't expect this delightful parcel of ash-framed rocketry to outrun a Porsche in a straight sprint. Morgan claims a 0-62mph time of 5.2 seconds and a top speed of 149mph, but winding its way across a typical UK B-road, it "feels quicker than that somehow", says Steve Sutcliffe in Auto Express. And outpacing a Porsche is "absolutely not the point". The Plus Four "is more than quick enough to keep you interested when traffic conditions permit – very interested – yet it has all the more traditional Morgan charms to fall back upon when they don't. Which is most of the time in the UK, let's be fair". More than that, you'll bring delight to all you pass, says Neil Briscoe in The Irish Times. The Morgan " is a car that brings as much pleasure to those seeing it being driven, as to those doing the driving".

Price: £64,995. Engine: 2.0-litre, petrol, four-cylinder turbo.

> *"The Plus Four is more than quick enough to keep you interested when conditions permit"*

Wine of the week: a shockingly delicious white from Domaine de l'Ile

2020 Domaine de l'Ile Blanc, Porquerolles, Côtes de Provence, France

£208 in bond per dozen, farrvintners.com; £205 in bond per dozen, frw.co.uk

Matthew Jukes
Wine columnist

I love the two 2020 releases from Domaine de l'Ile, and I have decided to lead with the white wine, even though it is less widely available, simply because it is shockingly delicious. It comes from Porquerolles, the largest and most westerly of the three Îles d'Hyères, situated just a few miles off the coast of Toulon. I have long loved the wines from this somewhat barren rock, and rosés have usually been the style that catches my eye, but Domaine de l'Ile's scintillating white, made from 100% rolle (or vermentino), is like nothing else on the planet. Organically farmed and made by the team behind the elite Left Bank Bordeaux Château Rauzan Ségla, this is a diaphanous beauty with faint stone-fruit allure and riveting ozone detail. It is epic with top-flight fish and seafood dishes and simply cosmic with crustacea. If you want to drink an unexpected and thoroughly intellectual alternative to Sancerre or Chablis, then this is the one to go for.

The 2020 Domaine de l'Ile Rosé (£175 in bond per dozen, farrvintners.com; £121.07 inc VAT for six bottles, goedhuis.com; £27.50 per bottle, harveynichols.com) is every bit as delicious as you might expect, too. With a similar sea-spray freshness and suitably pale coral colour, it is more invigorating than hosts of more muscular offerings. Do track this pair down – there is an elegance and sophistication here that is absent in so many of today's Provençal wines.

Matthew Jukes is a winner of the International Wine & Spirit Competition's Communicator of the Year (matthewjukes.com)

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Six Beautiful Summer Wines

I get justifiably excited each month when I put these MoneyWeek Wine Club cases together, each time trying to curate a finer collection than the month before. Hundreds of wines try out for MWWC but only six bottles make it from the palates of the finest wine merchants in the land. So you will forgive me if I get uncommonly enthusiastic about this perfect summer sextet. When I decided upon the wines I sent over an email to Jim Eustace, MD at HH&C, to confirm my selection and he replied in typical succinct form – "great wines, exactly what I am drinking this summer". Well, if it is good enough for Jim who am I to argue! Please do select the mixed case option, too, as this is the best way to taste through the wines and then you can come back for full cases when you have made your deliberations.

Matthew Jukes

- All wines come personally recommended
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- No membership needed

Prices shown below are per case of 12 bottles. Wines are also available in a 12 bottle mixed case (2 of each of the wines) **excellently-priced at £162.50 (saving £29.30 per case).** It's a chance for you to try them all, and it is the most popular choice with readers of *MoneyWeek*.

~~£11.50~~ **£9.75**

2020 Sauvignon de Touraine, Domaine de la Bergerie, Loire, France

Made by the great Domaine Jacky Marteau, or 'Jackhammer' as I like to think of him, this is one of most restrained and elegant Sauvignons of the year with slender, smooth, lemony fruit interlaced with gooseberry and fresh herb notes and shot with stony purity and minerality. Come to think of it Jackhammer is an entirely inappropriate name for a wine with such grace and accuracy and the price is simply unbelievable for a wine of this distinction.

CASE PRICE: £117

~~£15.45~~ **£12.75**

2020 Chardonnay Caliz, Kellerei Kurtatsch, Alto Adige, Italy

You might expect Chablis-Lords HH&C to suggest just that – a crisp, sultry, northern French Chardonnay for sophisticated summer dining, but no! They have left Chablis for dust and the reason is Caliz. Oh my goodness me, this is an electrifying wine. With just that little bit more vivacity and alpine freshness than you might expect and also a whisper more ginger and wildflower detail, too, this is a stellar Chardonnay and it is so chic I can barely type another word.

CASE PRICE: £153

~~£15.75~~ **£13.25**

2020 Esprit Rosé, Domaine Tour Campanets, Coteaux d'Aix en Provence, France

HH&C sets the rosé bar higher each year and when taste-supremo Will Bannister handed me this biodynamically farmed Grenache, Syrah, Cinsault and Cabernet blend with a laconic "yeah mate" in reply to my "you talked this one up, I hope it is worth the wait", he couldn't have been more accurate. Perfumed, silky, magical and layered with exquisite, tender touches of red and pink fruit notes Esprit is every inch a Provençal superstar.

CASE PRICE: £159

~~£20.45~~ **£17.25**

2019 Sancerre Rouge, Terre de Maimbray, Pascal et Nicolas Reverdy, Loire, France

I have followed Reverdy's wines for nearly three decades and while I usually drink the whites which, not surprisingly, account for the vast majority of the production here, in warmer vintages (aren't they all these days) the Pinot Noir here is magical. Classy, ripe, hauntingly perfumed and wonderfully tense on the finish, this is a stunningly layered wine that shows that, in the right hands, Sancerre Rouge can give the Burgundians a run for their money.

CASE PRICE: £207

~~£16.75~~ **£14.40**

2019 Chiroubles, Claudius, Domaine de la Grosse Pierre, Beaujolais, France

Another dear old friend, who has had a few facelifts of late, Grosse Pierre's Chiroubles is a sensational Gamay with tender, hedgerow fruit notes and a silky-smooth palate. Made from the estates oldest Gamay vines, it is a more kindly and less imposing wine than the Sancerre, this is an effortlessly classy, all-day glugger for sophisticated and thirsty pals. Knock a few degrees off it in an ice bucket and you will be in heaven.

CASE PRICE: £172.80

~~£16.00~~ **£13.85**

2020 Gamay sur Volcan, Les Vins de la Madone, Gilles Bonnefoy, Côtes du Forez, France

My final red is another Gamay grape, but this is no ordinary Gamay. With more grunt in the engine, coming from the volcanic soils and the elemental setting of this estate, this is a vibrant black cherry-soaked wine with a bright and superbly plush palate. The texture versus freshness ratio is astounding in this rare red wine. Perfect with everything on the barbie, this is a cracking find.

CASE PRICE: £166.20

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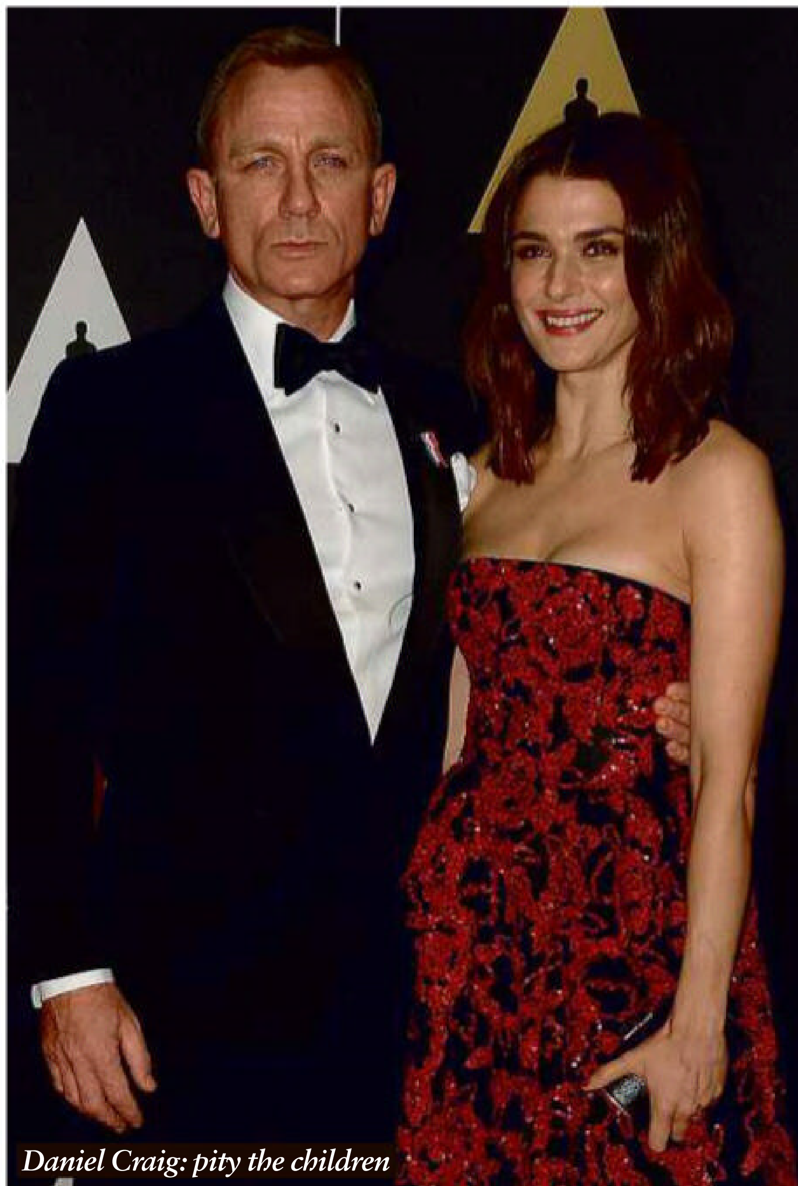
Spend your kids' inheritance

A substantial bequest would ruin them, wouldn't it? Rich celebrities seem to think so

In Ian Fleming's novels, James Bond was orphaned at the age of 11 and thrown upon the mercy and kindness of an aunt, who helped him complete his education. You might think that the children of the current James Bond, multimillionaire Daniel Craig, would face a more secure future in the event of their being orphaned. But perhaps not. Craig's three-year old daughter, stepson and adult daughter won't be getting much of a slice of the millions he has earned from playing 007, says Charlotte Bateman on Sky News. In a recent interview, he said he found the concept of inheritance "distasteful" and does not plan on leaving his children a fortune – instead, he will give it away before he dies.

Craig may think this promise comes from "a good place", says Miranda Levy in The Daily Telegraph – that by denying his children a comfortable inheritance they will live more motivated and self-improving lives. But the chances are that his children will not be happy with the arrangement. As actress Tori Spelling put it, upon learning that her father Aaron had left her a mere $800,000 of his $600m fortune, "when you grow up silver spoon, it's hard to go plastic".


Daniel Craig: pity the children

©Getty Images

"When you grow up silver spoon, it's hard to go plastic"

Some wiggle room

Such a hardline attitude also risks creating family feuds, says Levy. When Ronald Getty, son of billionaire John Paul, went through a "terrible divorce" from his third wife, Adolphine, for example, his father declared that his second son would receive only $3,000 a year. This led to a series of "acrimonious lawsuits", resulting in "a lot of family heartache". Mickey Rooney, to take another example, left his estate to stepson and carer Mark Abner, with all but one of his eight biological children left with nothing. "Rooney's body had to be refrigerated for two weeks as his family fought over funeral arrangements."

Helen Rumbelow in The Times, though, is not buying it. Craig is surely "just joining in with the fashion of the super-rich making public displays of virtuous disinheritance", while leaving himself plenty of wiggle room to discreetly help out his children. If you read what he said closely, you will see that Craig was careful to say he would not leave "great sums" to his children, not "no sums". In other words, he'll probably follow the example of Warren Buffett, who has said that he wanted to leave each of his three children "enough money so that they would feel they could do anything, but not so much that they could do nothing". He gave his son Peter a gift of stock when he was 19 that is worth $200m today.

It's a growing problem

Even celebrity chef Gordon Ramsay, an outspoken supporter of withholding inheritances, seems to have weakened, says Rumbelow. Despite declaring that he would only give his children enough for a 25% deposit on a flat, his student daughter Holly "has somehow managed to buy an £800,000 flat around the corner from her parents". Still, although Craig may be an outlier in terms of the extent of the wealth amassed, many others, even those in the middle-class, are likely to share the dilemma he faces. Wealth manager Brooks Macdonald estimates that, "in the UK alone, £327bn will be inherited by younger people in the UK over the next ten years".

Quintus Slide

Tabloid money... the one sure way to level-up Britain

● Laura Whitmore, millionaire host of TV's *Love Island*, was very, very upset with her interview in The Times, says Clemmie Moodie in The Sun. The offending journalist had used phrases such as "skips off" (sexist) and "well-behaved baby" (unfair). Never mind that Whitmore (pictured) is paid a "huge" six-figure salary, which presumably contractually obliged her to partake in this "onerous" interview to flog her sportswear brand. At the end of "the brutal Spanish Inquisition" there was even a lengthy plug and website link to said fitness collection. If Whitmore had wanted to promote her fashion line, she should have taken out a full-page advertorial. Sorry, Laura. "You can't court the press when it suits you and turn against it" when journalists "ask questions that you once asked as a video jockey for a satellite pop-music station."

©ITV

● The race is on to find Britain's next city of culture for 2025, says Patrick O'Flynn in the Daily Express. A record-long list of 20 entrants has been announced and it's not hard to see why so many cities are keen to win the prize. Previous winner Hull attracted total audiences of around five million and secured £220m of investment that created 800 new jobs in the 12 months of 2017 when it was in the cultural spotlight. The inaugural city, Derry-Londonderry, pulled off a similar feat in 2013. "In other words, this is one Whitehall wheeze that is actually working out rather well." Residents of at least one overlooked place will experience a rush of civic pride, while local hospitality businesses look forward to a boom. It's the one sure way to level-up Britain.

● "Not all young people are annoying and selfish but, sometimes, it feels that way," says Jan Moir in the Daily Mail. Why else would the government feel the need to offer them incentives to get their Covid-19 jabs? You might think saving lives would be reason enough. Yet, "like recalcitrant puppies", they need a treat before so much as considering it. Food-delivery and ride-hailing apps, such as Uber, Bolt and Deliveroo, will offer discounts for the vaccinated. "But will any of this work?" Campers at the recent Boardmasters festival in Cornwall could recoup £10 if they collected one full bag of recyclable waste on departure. You would have thought that Gen Z climate warriors wouldn't need any incentive. Yet the beach looked like a rubbish tip.

Bridge by Andrew Robson

Elegant switch missed

East cursed himself after failing to find a really elegant switch at trick two on this week's deal from a past World Championships. Can you? West leads his fourth highest Club, and you as East win the bare Ace (declarer unblocking the Queen). Looking at dummy, it is clear to switch to Hearts. But to which Heart?

Dealer South Both sides vulnerable

North
♠ KJ32
♥ 95
♦ A10
♣ J10982

West
♠ 954
♥ AJ72
♦ 3
♣ K7654

East
♠ Q876
♥ Q86
♦ J6542
♣ A

South
♠ A10
♥ K1043
♦ KQ987
♣ Q3

The bidding

South	West	North	East
1♦	pass	1♠	pass
1NT*	pass	3NT**	pass
pass	pass		

* "15-17 balanced" – the best choice given the rich doubletons, as rebidding Two Hearts is so clunky. Swap the Hearts and Clubs and South would rebid Two Clubs.

** Worth game – look at the sequential Club pips.

At the table, East switched to the six of Hearts. West won the Knave, but could not continue the suit to advantage, in practice leading back a low Heart in the hope that East held the King. It was not to be, declarer beating East's Queen with the King and forcing out the King of Clubs. West could only cash the Ace of Hearts and give up. Nine tricks and game made.

The winning switch from East at trick two – catering to the precise layout (ie, West holding AJ7x) – is the Queen of Hearts (key play). Declarer must cover with the King, but now West scores his Ace, cashes the Knave, crucially nullifying dummy's nine, then leads a low Heart to the eight and ten. When West wins his King of Clubs (declarer cannot make nine tricks on the layout without a Club trick), West cashes the promoted seven of Hearts. Down one.

For Andrew's four daily BridgeCasts, go to andrewrobsonbridgecast.com

Sudoku 1066

			8		6			
			2		4		7	
		2				6	3	
	2				1	7		
6								1
		3	5				8	
	1	6				9		
	9		1		7	3		
8			6		2			

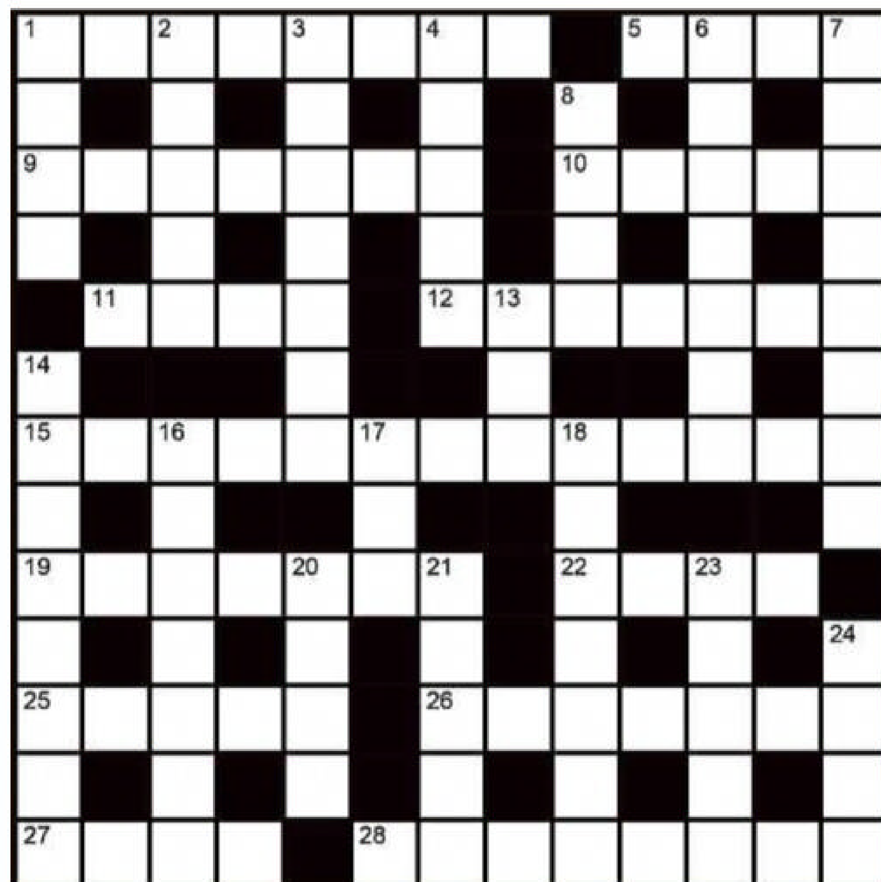
To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

1	5	2	9	4	6	3	8	7
7	3	8	1	2	5	4	6	9
9	4	6	8	3	7	2	5	1
6	1	4	2	8	9	5	7	3
3	2	5	7	6	1	9	4	8
8	7	9	4	5	3	6	1	2
2	8	7	6	9	4	1	3	5
5	6	1	3	7	2	8	9	4
4	9	3	5	1	8	7	2	6

MoneyWeek is available to visually impaired readers from RNIB National Talking Newspapers and Magazines in audio or etext. For details, call 0303-123 9999, or visit RNIB.org.uk.

Tim Moorey's Quick Crossword No. 1066

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 6 Sept 2021. Answers to MoneyWeek's Quick Crossword No. 1066, 31-32 Alfred Place, London, WC1E 7DP.



Some topical references are unclued. Of the remainder, across clues are mildly cryptic whereas down clues are straight

ACROSS

1 **See preamble** (6, 2, 8)
5 Soon coming from a less than positive French response (4)
9 Wretched uplift around India's capital is dire (7)
10 Debussy piece that's comparatively weak? (2, 3)
11 Pacific island in which 75% of the characters are dotty! (4)
12 Sort of diver, profound? Not Ted (4-3)
15 Put out idea that means moving (13)
19 Ballroom dance that won't take you far? (3-4)
22 Ill-considered complaint (4)
25 An old bowler getting a duck? (5)
26 New respect for Bond movie (7)
27 Ad-lib exhibition showing mountain goat (4)
28 **See preamble** (8)

DOWN

1 Soft bread rolls (4)
2 Rwandan people (5)
3 Tending towards socialism (7)
4 Lubricated (5)
6 Long-standing rival (7)
7 **See preamble** (8)
8 This is one! (4)
14 **See preamble** (8)
13 Long period of history (3)
16 Mean (7)
17 Centre of a hurricane (3)
18 Flood (7)
20 Northern English river (4)
21 Italian dish (5)
23 Protest (3-2)
24 Professional charges (4)

Name ....

Address ....

....

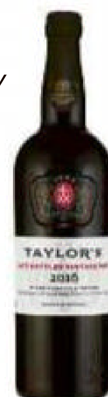
Solutions to 1064

Across 1 Study *deceptive definition* 4 Susie *anagram* 8 Accommodating *two definitions* 9 Spring chicken *spring + chicken* 10 Hardworking *hard + working = on* 12 Window-shopper *Windows + hopping* 15 Triangulation *anagram* 16 Hasid *has + ID* 17 Titan *Titanic less ic = one cold*
Down 1 Snags 2 Uncertainties 3 Yemen 4 Seasick 5 Sticking point 6 Elgin 7 Hot cross bun 11 Drowned 12 Watch 13 Op art 14 Run-in.

The winner of MoneyWeek Quick Crossword No.1064 is: Lucille Wojcik of Brighton

Tim Moorey is author of How To Crack Cryptic Crosswords, published by HarperCollins, and runs crossword workshops (timmoorey.com)

Taylor's is one of the oldest of the founding Port houses, family run and entirely dedicated to the production of the highest quality ports. Late Bottled Vintage is matured in wood for four to six years. The ageing process produces a high-quality, immediately drinkable wine with a long, elegant finish; ruby red in colour, with a hint of morello cherries on the nose, and cassis, plums and blackberry to taste. Try it with goat's cheese or a chocolate fondant.



The $2trn boondoggle

The truth will out in the end. In the case of Afghanistan, it took 20 years

Bill Bonner
Columnist

The reality was obvious to anyone able to read Wikipedia

©Shutterstock

The financial news in recent weeks has been overshadowed by the disgraceful fall of Kabul. On 8 July, US president Joe Biden said a Taliban takeover was "highly unlikely", saying there would be "no circumstance [where] you see people being lifted off the roof of an embassy". And even if the Taliban did eventually take over, said US secretary of state Antony Blinken in June, it won't "be something that happens from a Friday to a Monday". But that's exactly what did happen. The Afghan troops that the US trained, bribed and supported for 20 years didn't fight to the last man. They simply gave up and joined the other side.

In all of military history, we can't think of any defeat so quick, so complete, or so ignominious. Biden and Blinken were advised and informed by 17 different "intelligence" agencies – the CIA, the NSA, etc – with billion-dollar budgets, thousands of big-head analysts and all the latest spy technology. How could they all be so incompetent? Glenn Greenwald reports that the Pentagon had long reported that the Afghan army, which outnumbered the Taliban four-to-one, was both incompetent and unreliable. They didn't make a "mistake", said Greenwald, interviewed on Fox News. "They lied."

It's amazing what you can't see when you're paid to be blind. And for a long time – 20 years, in the case of Afghanistan – you can keep the fantasy intact. Then, in just a few days, it collapses like a punctured balloon. Anyone could have foreseen the whole 20-year fiasco – all they had to do was read about Afghanistan on Wikipedia.

> *"Who wants to see the truth when they're paid $2trn not to see it?"*

The country was invented by Europeans. But it is inhabited by dozens of different tribes – Pashtun, Tajik, Hazara, Uzbek, Aimaq, Turkmen, Baloch, Pashai, Nuristani, Gujjar, Arab, Brahui, Qizilbash, Pamiri, Kyrgyz, Sadat – each with its own language, religion and culture, and deep grudges against the others. The idea of building a US-style democracy there was preposterous from the get-go. But who wanted to see that when there was $2trn to be made by pretending not to see it?

The generals got their stars, their post-retirement sinecures at Raytheon, and their shares in WestExec, a private-equity firm specialising in Pentagon boondoggles. The private sector too collaborated with the military – and profited handsomely. A portfolio of "defence" stocks – bought at the beginning of the 21st century and held until today – rose ten times while US GDP only doubled. How's that for a pay-off?

The Afghanistan disaster was concocted in elite think-tanks, supported by both Democrats and Republicans, directed by elite Ph.D. experts, supplied by elite corporations and boosted by elite lobbyists. The truth about Afghanistan is now out in the open. But what is still hidden?

The bottom line

101.8bn The value in Afghan afghanis ($1.3bn) of the gold bars held by the Federal Reserve Bank of New York on behalf of the Da Afghanistan Bank, Afghanistan's central bank, as of 21 June. They, like most of the central bank's $10bn in assets, are out of reach of the Taliban.

€13.5m The investment from the Italian government in a new museum focused on the life of Federico Fellini, director of *La Dolce Vita*. The museum opened last week in Fellini's home town of Rimini, almost three decades after the celebrated director's death.

£2,210 The value of the "union dividend" per person in Scotland. Scotland raised £382 less in tax per person than the UK average, while public spending was £1,828 higher, according to the annual Government Expenditure and Revenue Scotland (GERS) report.

£237,000 The average pay of FTSE 100 female directors, which is 73% less than the £875,900 their male counterparts receive, according to New Street Consulting Group. That compares with a "gender pay gap" in the wider job market of 15.5%, based on official data.

€10 The entrance fee (€3 in low season) that day trippers will have to pay from next summer to visit Venice, the first city in the world to charge admission. Hotel guests, local residents and children under six years' old will be exempt from the charge.

©Getty Images

€69 The price of an incense-dispensing wooden figurine of German chancellor Angela Merkel (pictured). Ten per cent of the proceeds from the "mini Merkel" sales will go towards helping victims of July's Rhineland floods. Merkel stands down next month after 16 years in power.

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