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# MoneyWeek

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# Trick or treat?

## The real bargains in the investment-trust sector

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# From the executive editor...

Gordon Brown has a lot to answer for. As chancellor, he created the template for the "showbiz budget" – leak the big stories upfront to generate "buzz"; scatter the speech with small-scale bureaucratic interventions that sound good but don't amount to much and talk a big game on fiscal responsibility while quietly hiking taxes and spending as much as you can get away with. Rishi Sunak, the Conservative chancellor, belongs to a nominally different party, but his latest budget was very much a Gordon Brown special.

Fiscal rules that sound strict but depend entirely on how a government defines "investment", and thus come with their own portable goal posts? Check. Fiddly little schemes that generate the odd joke but don't amount to anything beyond budget day? Check – I'm not sure a chancellor has ever spent so much time talking about the alcohol duty on sparkling wine. Finally – and as Sunak himself acknowledged in his closing remarks – higher taxes and higher spending? Check. As the Office for Budget Responsibility (OBR) points out, taking the March and October budgets together, the chancellor has raised taxes by more this year than in any one year since 1993.

Sunak's stroke of luck is that things aren't as bad fiscally as everyone expected at the start of the pandemic. So he was able to announce big "real-terms" spending increases, funded in part by that £15bn in tax hikes, most of which had already been announced (the so-called health and social care levy), while also claiming that he'd be able to ensure that the UK's government debt was falling by the end of this parliamentary term.

*Rishi Sunak: inspired by Gordon Brown*

©Shutterstock

*"Inflation is going to catapult a whole lot of us into higher tax bands in the coming years"*

Sunak at least appears to be reluctant about presiding over the biggest expansion of the state in a generation. Towards the end of his speech he declared that he hopes to be cutting taxes before Parliament ends, stating: "Do we want to live in a country where the response to every question is: what is the government going to do about it?... Or do we choose to recognise that government has limits?". Yet even if he starts cutting taxes, he'll only be able to do so because they're likely to rise so significantly over the next couple of years.

The OBR reckons that inflation will hit an average annual rate of 4% next year – and that's just going by inflation in the consumer price index (CPI), which tends to be a good percentage point or more lower than the retail price index (RPI) that we used to use. Given the generally dubious reliability of forecasts – incredibly, as recently as March this year, the OBR thought CPI inflation wouldn't even get to 2% by 2022 – it could well be higher. What with personal allowances being frozen for the foreseeable future, that means inflation is going to catapult a whole lot more of us into higher tax bands in the coming years.

In all, investors probably need to be thankful for small mercies. Such as? We didn't see any change in the capital-gains or inheritance-tax regimes. Nor did the chancellor withdraw higher-rate tax relief on pension contributions, something that has been threatened for at least a decade now. That doesn't mean changes will never happen, but it does mean you have at least another year in which to maximise your contributions. Max has some cheap investment trusts to look at as destinations for some of that (see page 22).

John Stepek
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## Branding flop of the week

The mascot for the Cop26 summit in Glasgow should be "a symbol of the international effort to tackle climate change and leave the world in a better state for the next generation", says The Daily Telegraph. So it's hard to understand why Boris Johnson's administration signed off on a "seal dressed in a blue cheerleading uniform and a Glasgow-themed bobble hat" at a cost to taxpayers of £1,645. To make matters worse, many in Whitehall think the figure, known as Bonnie, looks "more like a rat than a seal", to the point where insiders have dubbed it "King of the Glasgow Rats" in a nod to recent outbreaks of vermin on local streets. Perhaps strangest of all is that Bonnie isn't even new. She was created for the 2018 European Championships and the 2019 Euro swimming championships. At least the recycling is "in keeping with Cop26's green agenda".

©Getty Images

Cover illustration: Adam Stower. Photos: Alamy; Getty Images; iStockphotos

## Good week for:

The founder of Babylon Health – which provides the virtual GP service for the National Health Service – is worth $1bn after the firm listed on the New York Stock Exchange this week, says the Times. **Ali Parsa**, who set up Babylon Health eight years ago, has a stake of around 30% in the company, and stands to receive a further 38.8 million bonus shares if the share price doubles.

The town of **Fleetwood** in Lancashire has received a £41.4m bequest from Doreen Lofthouse, the businesswoman who turned Fisherman's Friend cough sweets into a global brand, says the BBC. Lofthouse, who died in March, was known as "the mother of Fleetwood" and she and her family – who still control the business – had given millions of pounds to community projects in Lancashire since the 1990s.

## Bad week for:

Art-making robot **Ai-Da** (pictured) was detained by Egyptian customs for ten days on the way to an exhibition at the Great Pyramid of Giza, over fears that it could be part of an espionage plot, says Artnet. Images generated by the machine – which was created by Oxford art dealer Aiden Meller in February 2019 – have sold for a total of $1m. However, officials initially wanted to remove its modem and the cameras installed as its eyes. Ai-Da has now been released to take part in the show, which opens this week.

**Devon & Cornwall Police** will pay £5,000 in compensation to a man who was wrongly arrested in July last year when trying to pay for petrol with a £100 commemorative coin, says the Daily Mail. Brett Chamberlain's offer of a 2016 Trafalgar Square special edition coin – which is legal tender – was rejected by staff at a Tesco Extra in Exeter, who called the police. Chamberlain was detained on suspicion of "making off without payment" and questioned for four hours. He plans to use the money to buy more coins.

# Is the Bank of England all bark, no bite?

**Alex Rankine**
Markets editor

Will Andrew Bailey prove a more "reliable boyfriend" than Mark Carney? asks Jill Treanor in The Sunday Times. During his time as Bank of England governor Carney gained a reputation for sending mixed signals about future interest-rate changes, causing one MP to liken him to an "unreliable boyfriend".

Now Bailey, his successor, is the one making promises. This month he said that the Bank "will have to act" on rising inflation. Investors have taken him at his word. Markets are pricing in an interest rate hike from 0.1% now to 0.25% before the end of the year. They then expect rates to rise to 1% by next summer.

*Andrew Bailey says the Bank "will have to act" on rising inflation*

©Getty Images

### Bond markets wobble

Short-term government bond yields, which are "highly sensitive to expectations for interest rates", have leapt as prices have fallen, say Tommy Stubbington and Kate Duguid in the Financial Times. Yields on two-year UK gilts have risen from -0.15% at the start of the year to 0.64% now. It has been "a massive sell-off", Marion Le Morhedec of Axa Investment Managers told the FT. "Everyone has been surprised by the upside on inflation."

The US Federal Reserve is not expected to raise interest rates until well into next year. The Bank of England is being unusually hawkish, says The Economist. Why? Britain's dependence on natural gas and trade, as well as Brexit, make it more vulnerable than others to global inflationary pressures. The Bank is also keen to head off doubts about its inflation-fighting credentials. Some investors question whether the bank "is more interested in propping up the Treasury than in curbing inflation".

### The debt problem

The pandemic drew "a fiscal response… comparable in its magnitude to that of an all-embracing war", says Jeremy Warner in The Daily Telegraph. Such "excessive debt" reduces central banks' room for manoeuvre when fighting inflation: "It won't take much in the form of higher interest rates to tip economies into recession."

The Bank is expected to carry on buying UK government bonds with printed money until the end of 2021, taking the value of its quantitative easing programme up to £875bn. The Bank owns more than one-third of UK public debt. Tighter monetary policy would raise the Treasury's debt-servicing costs, risking wider bond market ructions that the bank will be keen to avoid.

Rishi Sunak's desire to get the public finances in order is another reason to be sceptical of the Bank's hawkish tilt. As James Smith of ING tells Treanor, the UK is "the only developed market economy which is considering both tightening monetary policy quite rapidly and also scaling back fiscal support". A more tight-fisted Treasury should temper inflationary pressure, reducing the need for the bank to tighten things up on the monetary policy side.

The Bank's talk of interest-rate hikes could be "a ploy to persuade markets to do the… dirty work" through rising bond yields, says The Economist. It remains to be seen whether the Bank's hawkish tilt is "all bark, no bite".

## The GameStop frenzy: what really happened

A new report from America's Securities and Exchange Commission (SEC) casts doubt on the popular David-versus-Goliath account of January's GameStop saga, says Declan Harty on Fortune. The story goes that ordinary investors teamed up against Wall Street short sellers, sending the share price of struggling videogame retailer GameStop soaring by 2,700%.

The frenzy around GameStop and other "meme stocks" such as AMC Entertainment was supposedly driven by retail investors co-ordinating on internet forums such as Reddit. Massive buying from ordinary investors forced hedge funds that were shorting the stock – betting that its price would fall – to instead buy it to limit losses, driving the price even higher.

*Shares in the struggling videogame retailer soared by 2,700% in January*

©Getty Images

But the report finds that this "short squeeze" was not the main cause of GameStop's soaring share price; instead, it was the overall "enthusiasm" of ordinary investors piling in, says Avi Salzman in Barron's. The number of unique accounts trading GameStop rose from 10,000 in early January to almost 900,000 a few weeks later. The SEC also casts doubt on the idea that big Wall Street firms all lost out: "While some short sellers… lost money, several hedge funds appear to have profited during the frenzy."

Brokerages such as Robinhood limited trading in meme stocks in late January, prompting claims of collusion between big financial firms, says Harty. But the SEC finds that the halt to trading occurred for a more prosaic reason: brokerages were running out of collateral to cover potential losses caused by all the buying.

The report has "doused" speculation and conspiracy theories about January's unprecedented market moves with an "underwhelming conclusion": the market broadly worked as it should.

## A new low for the Turkish lira

Turkey's lira has hit a new all-time low against the US dollar. The currency has lost 25% of its value since the start of the year. Last week Turkey's central bank cut interest rates by 2% even though inflation has hit 19%. Turkish president Recep Tayyip Erdogan, an opponent of high interest rates (he thinks they cause, rather than cure, inflation), has put significant pressure on the bank to keep money easy. The pressure on the lira worsened after Erdogan threatened to expel the ambassadors of ten countries, including the US, France and Germany, following a diplomatic row at the weekend.

It is not the first time that Turkey has cut interest rates even as inflation soars, says Jonathan Wheatley in the Financial Times. Yet there are growing signs of opposition, with Turkey's leading business association calling for "central bank independence and cautious monetary and fiscal policy". Opinion polls suggest there is growing discontent with the inflation that the government has so "drastically failed to cure". But with no election due until 2023, don't expect things to change anytime soon.

"Investors have become used to nationalistic rhetoric from Erdogan," say Tugce Ozsoy and Netty Idayu Ismail on Bloomberg. The recent interest-rate cuts will have a bigger effect. "Foreign ownership of Turkish bonds and stocks has slumped to new lows."

# Bitcoin ETFs fuel frenzy

"What a week for crypto enthusiasts!" says Lara Williams on Bloomberg. Bitcoin hit an all-time high just short of $67,000 on 20 October, the same week that two bitcoin exchange-traded funds (ETFs) debuted in New York. The digital currency has more than doubled since 1 January 2021.

The new ETFs mark "a major milestone" on cryptocurrency's "journey into the mainstream", says Adam Clark Estes on Vox. The first ETF to launch, the ProShares Bitcoin Strategy ETF, took in $550m from investors on its first day and surpassed $1bn in assets under management after just two trading days.

The fund is not allowed to buy bitcoin directly. Instead, it "tracks bitcoin futures contracts traded on the highly regulated Chicago Mercantile Exchange", a structure that raises fewer complaints from regulators.

### A pricey way to buy bitcoin

Such futures-based vehicles are cumbersome and expensive, says Lex in the Financial Times. "Funds that invest in futures need to keep rolling contracts over contracts to maintain their exposure," paying a fee each time they do so. Add in a 0.95% management charge and "returns will be eroded"; many crypto investors will just keep buying the currency directly through specialised crypto exchanges instead.

*The ProShares Bitcoin Strategy ETF tracks bitcoin futures*

©Getty Images

The expense of investing through an ETF is worth it for big institutions, says Williams. ETF investors are "basically paying someone else to store bitcoins for them". That will "protect them from forgetting the all-important passwords and losing all their customers' bitcoin".

Bulls hope that bitcoin ETFs will bring new money into the market, says The Economist. But "new investors may not come in the droves" predicted. Cryptocurrency investors can already buy through popular trading apps and PayPal. For now, the jury is out on whether the new ETFs are "a landmark, a way for regulators to retain control, or a disappointment".

"Just a few weeks ago, bitcoin was in the doghouse," say Daren Fonda and Avi Salzman in Barron's. That was due to a "crackdown in China" and concern over bitcoin's carbon footprint. Now bulls talk optimistically of it hitting $100,000. Bitcoin was conceived as a way of bypassing the financial establishment, but today Wall Street is moving in. No wonder: ETF assets were worth $9trn worldwide in August. "If crypto ETFs captured 1% of the global market, they would be worth $90bn".

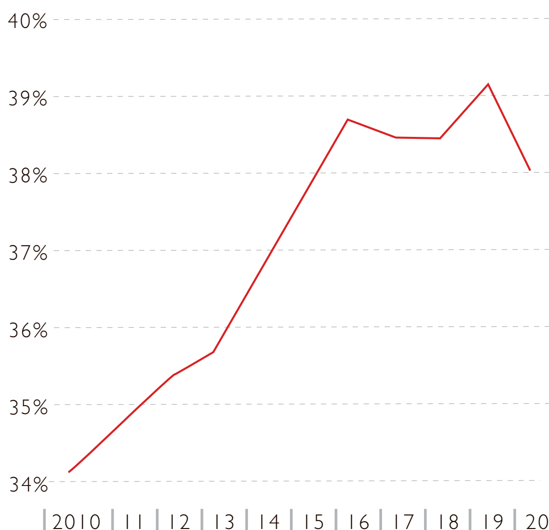
Crypto-linked exchange-traded products have combined assets of $14bn worldwide, according to data from Trackinsight, says Joshua Oliver in the Financial Times. Bitcoin ETFs are still not available in Britain, where regulators are sceptical about their "extreme volatility". Not that this deters British punters. "More than 4%of adults in the UK, or 2.3 million people, own a cryptocurrency."

## Viewpoint

"The latest Link Group UK Dividend Monitor... found that UK dividends soared in [the third quarter of 2021], recovering 89.2% to £34.9bn thanks to significant growth in mining dividends... and the lifting of all dividend restrictions on the banking sector... the sharp increase in the oil price has [also] led Royal Dutch Shell and BP to start to grow their dividends again [although] dividend levels are still materially below 2019 levels... caution is needed for 2022, where dividend growth is likely to slow. Recent falls in the iron ore price [are] likely to lead to lower dividend payments from the mining sector next year... supply chain disruptions and... cost inflation may put pressure on corporate margins... [But] a forward dividend yield of 3.5% on the UK equity market is still attractive, especially relative to other... equity indices."

**David Smith, Henderson High Income Trust**

## A setback for Beijing's rebalancing




Source: Oxford Economics

Strong exports have kept the Chinese economy ticking over during the pandemic, but they also risk returning it to bad old habits, says Stella Yifan Xie in The Wall Street Journal. Beijing is trying to rebalance the economy away from the old growth model – based on exports and investment in infrastructure and real estate – towards one powered by consumer-led growth. Yet pandemic uncertainty took private consumption as a share of GDP down to 38.1% last year, the lowest level since 2016. US personal consumption as a share of GDP hit 67.4% at the end of 2020. Beijing is now trying to redistribute income and improve the social safety-net so that households begin to feel more confident about spending rather than saving.

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

## Three to buy

**Indivior**
*The Sunday Times*
In 2019 Indivior was charged in the US with running an "illicit nationwide scheme to increase prescriptions" of a version of its opioid-addiction treatment. But the drugmaker seems to have redeemed itself. It has invested in a new treatment for cannabis-related disorders, branched out into alcohol-misuse drugs and grown sales of its injection for opioid addiction. But the stock is still selling for half its 2018 price. Sales are rising fast. Once Indivior regains investors' trust, it will consider mergers. Buy now. *240p*

**Light Science Technologies Holdings**
*The Mail on Sunday*
Just 23% of fruit and vegetables sold in the UK are grown locally. Our reliance on imports raises our greenhouse-gas emissions. Light Science Technologies Holdings aims to bolster the proportion of fruit and vegetables grown here. It produces 40 variations of lighting kit that helps fruit and vegetables grow in glasshouses, along with sensors that monitor the conditions plants need to thrive. The company listed this month, and the shares should appreciate substantially as investors focus on producing food closer to home. *12p*

**XP Power**
*Shares*
Some companies have been better at navigating global supply-chain strain better than others. Power-components designer XP Power (products include converters and other gadgets) is getting better at it. Third-quarter order wins of £97.3m have propelled the order backlog to £186m. Management sees scope to continue boosting margins, while a strong balance sheet should facilitate acquisitions. *5,248p*

## Three to sell

**Sanderson Design Group**
*The Daily Telegraph*
Sanderson, the wallpaper-to-fabrics company, has a "rich heritage and strong brand portfolio". The company recently reported a profit, the return of its dividend and net cash on its balance sheet. The good news means expectations have been raised, and the shares look vulnerable to "any stumbles or disappointments". They have risen by 165% in three years and cost 20 times earnings. Time to "draw the curtains" and take profits. *200p*

**Hurricane Energy**
*Investors' Chronicle*
Macroeconomic events have "overtaken the drama" Hurricane Energy's investors went through six months ago. Directors "had effectively given up" and asked investors to support a plan to hand back the company to creditors. Today, higher oil and gas prices have raised cashflow, and the company has bought back a third of its bonds. But the challenge of funding investment in its assets remains. And if the board can't invest in production or dividends, there are better options elsewhere. Sell. *4.7p*

**Whitestone Reit**
*The Motley Fool*
Whitestone owns 60 strip malls in the fast-growing states of Texas and Arizona, which sounds bullish. But while many of its locations are filled with stores people visit often, only about half of them have a grocery store, which is considered one of the most important components of strip malls as it keeps people coming back on a weekly basis. Adding more grocery stores to its holdings doesn't seem like a priority either. Investors keen on consistent dividends may be better off sticking with the real-estate investment trusts (Reits) that follow industry practices. Avoid. *$9.83*

## ...and the rest

**The Daily Telegraph**
**Tirupati** is a miner of graphite, a material likely to play a big role in the decarbonisation of energy and transport. It has also developed an alloy of graphene and aluminium that could replace copper wires. The share price has fallen but investors should hold *(87p)*. Oil and gas prices remain firm, which could bode well for **Royal Dutch Shell**. Fresh supply "does not seem to be forthcoming", so "oil and gas prices could yet surprise". Hold for now *(1,790p)*.

**Investors' Chronicle**
**YouGov** has benefited from the rise of social media and the internet, which has enabled marketers to micro-target customers. It collects and disseminates bespoke data, which has driven profits. Post-pandemic, businesses will be looking to expand their marketing channels. Buy *(1,315p)*.

**Shares**
Cybersecurity and defence company **QinetiQ** surprised investors when it highlighted a supply-chain issue related to a "complex, multi-year programme". Management seem confident the issue is temporary, but shares still dropped by 13%. This is a buying opportunity *(291p)*.

Batteries, vaping and vitamins specialist **Supreme's** shares rose when it reported a strong performance for the six months to September 2021. Margins have proved strong, which augurs well for profit. Buy *(195p)*.

**The Mail on Sunday**
**1Spatial's** clever technology "is winning plaudits". It helps governments, utility firms and emergency services, among others, pinpoint buildings, power stations and pipes. Existing shareholders should hold; new ones can buy. *46p*

## A German view

**Welltower, a US real-estate investment trust (Reit) specialising in healthcare infrastructure, provides operators of "seniors housing" (independent and assisted-living communities) and rehabilitation centres with capital to expand and run their facilities, says Focus Money. Welltower profits by taking a stake. It has dabbled in more than 100,000 properties in the US, Canada and Britain. The group has ample liquidity on its balance sheet – almost $7bn in late June – to make further investments that will allow it to profit from an ageing population. Fund giants Vanguard and BlackRock each hold a 10% stake, while the stock is also a reliable provider of income. It currently yields 2.8%.**

## IPO watch

Indian beauty retailer Nykaa's impending initial public offering (IPO) "will catapult founder Falguni Nayar into India's rarefied league of billionaire women", says Saritha Rai on Bloomberg. It will value the company at up to $7.1bn, giving Nayar and her family a net worth of around $3.5bn. Nayar, a former investment banker who oversaw the flotation of a series of Indian firms, founded Nykaa (formally operated by FSN E-Commerce ventures) in 2012. It sells over 2,500 brands of makeup, "from foundation to sheet masks, the silken kohl Indian eyeliner and the traditional body art called mehendi". Its website, app and 70-odd shops produced sales of $330m in the year to March.

©Hurricane Energy; iStockphotos; Royal Dutch Shell

## City talk

©Getty Images

● Tesla has become the first carmaker valued at more that $1trn. Shares in Elon Musk's (pictured) electric-car firm jumped by 12% on the news that it will sell 100,000 of its vehicles to rental business Hertz. The rally takes Tesla into a select group of firms, including Apple, Microsoft and Amazon, valued at more than $1trn. Tesla is now worth more than the next nine biggest listed carmakers combined, says Chris Bryant on Bloomberg, even though it makes fewer vehicles than many of its more lowly-valued rivals. Tesla's valuation climbed by $118bn in a single day, "almost double that of Ford Motor's entire market capitalisation". Spare a thought for Volvo, which sells roughly as many cars as Tesla. It was obliged to cut the size of its imminent flotation because of lacklustre demand on the same day that Tesla reached the new valuation landmark. Tesla's rivals have tried to ape its success by investing heavily in battery technology and electric models of their own, but they just can't match Tesla's stardust.

● Swiss bank UBS' wealth-management division has turned in a strong performance, but America remains a weak spot, says Liam Proud on Breakingviews. Profit margins at the Americas unit of its wealth-management division are about half of those in other regions because of hefty commissions paid to US financial advisers. UBS thus wants to launch a digital wealth-management product, which would allow it to bypass advisers. Yet the likes of JPMorgan, Goldman Sachs and Morgan Stanley have all had the same idea. Unless UBS is ready to splash some serious cash on takeovers, it might be more prudent to sell the US unit at a premium and retreat: "go big or go home".

# HSBC's big bet on Asia

The banking giant plans to exploit the region's potential in the next few years, but are its targets too ambitious? Alex Rankine reports

HSBC's "pivot to Asia" seems to be going smoothly, says Rochelle Toplensky in The Wall Street Journal. The bank is headquartered in London, but today draws more than half of its profit from Asia. That figure should grow over the next five years as it invests $6bn in expanding its Asian wealth-management arm and other operations in the region. The latest results are encouraging too. Third quarter pre-tax profit rose by 74% year-on-year to $5.4bn. HSBC set aside $7.6bn during the first three quarters of 2020 as it prepared for a wave of loan defaults. In the event, the economy has surprised on the upside, allowing the bank to cut the bad-debt provisions by $659m. Management has used the extra cash to help fund a $2bn share buyback scheme.

The buyback shows that the bank is confident about its big bet on Asian growth, says Toplensky. Founded in Hong Kong in 1865, HSBC "acts as a conduit between Western capital markets and China". Turmoil in the Chinese property market is the most immediate headwind, but it has little direct exposure to the likes of troubled developer Evergrande. Hong Kong and the UK account for the bulk of the loan book. "Less than 2%" of the bank's $1trn in loans is in mainland Chinese real estate and it has "no direct credit exposure" to the most distressed category of mainland Chinese property developers.

©iStockphotos

*The medium-term outlook isn't so bright*

### Monetary policy and political turbulence

The medium-term outlook isn't so sunny, says Liam Proud on Breakingviews. CEO Noel Quinn wants to deliver a 10% return on tangible equity, a key gauge of profitability, by 2024, but he's still "miles off". He will need to raise annual revenue from about $50bn today to $63bn in just three years, "implying 8% compound annual growth". HSBC likes to vaunt Asia's superior growth prospects, but 8% is more than its forecast GDP growth of 5.2% over the next few years. HSBC may be betting on global interest-rate hikes (which boost banks' profitability), "but it's unwise to base a business plan on tighter monetary policy, which is outside Quinn's control".

HSBC's reason for pivoting is simple, says Lucy Burton in The Daily Telegraph. "It is chasing the money": $35trn in Chinese household savings is forecast to head into financial products by 2030. Yet as a bank that is regulated in London but does most of its business in Asia, HSBC finds itself performing a "delicate balancing act" amid growing tensions between China and the West. The bank opted not to shift its global headquarters from London to Hong Kong in 2016, but that decision may need to be revisited.

HSBC's growth plans could also fall foul of China's "common prosperity" agenda, which aims to narrow the country's wealth gap, says Lex in the Financial Times. Authorities are "tightening supervision" of wealth management, an area linked to the frothy property market. "The biggest risks to HSBC are… political," but at least "most of these are priced into the stock."

# Ladbrokes' owner left on the shelf again

Ladbrokes' owner Entain "has been abandoned at the altar for the second time this year", says Oliver Gill in The Daily Telegraph. In January Entain's board rejected an £8bn bid from US casino operator MGM, causing MGM to withdraw its interest. Entain's latest suitor, US gambling group DraftKings, made an £16.2bn takeover approach last month but has now opted not to proceed.

US gambling firms see rich pickings in the British market. The trend dates back to 2018 when the US supreme court legalised sports betting. British firms already had experience in the sector and moved into America fast. Entain operates a joint gambling venture with

©Getty Images

*Entain: second time unlucky*

MGM, its spurned suitor, in the US. "Increasingly, US firms have been looking to buy out their British partners." It appears to be the MGM joint venture that sank the DraftKings bid, says Gill. "MGM and Entain have exclusivity agreements in place that mean Entain's technology… can only be deployed in the US through the joint venture", says Alistair Johnson of Redburn. That gives MGM an effective veto on any takeover of Entain. The need for DraftKings to strike a separate deal with MGM about how the joint venture would operate post-takeover appears to have caused the approach to collapse under the sheer weight of complexity.

The news of a second failed bid in nine months sent Entain's shares down by 6%, but don't pity the investors, says Alistair Osborne in The Times. All this takeover interest has seen the shares more than double over the past year. That's "more proof of how bookies can turn any result into a win".

# A summit to save the world in Glasgow

World leaders must agree to tough and costly action if they are to meet climate targets

The UN Cop26 climate summit kicks off in Glasgow this week – "the most important climate talks since 2015, when the Paris agreement was signed", says The Economist. The Paris accord committed signatories to keeping the rise in the Earth's mean surface temperature to "well below" 2˚C above pre-industrial levels, and ideally to no more than 1.5˚C. By now, all countries are supposed to have set tough new targets for reducing emissions and rich countries to have funnelled cash into poor ones to help them along. They are coming up short on both fronts. Meanwhile, temperatures have already risen by 1.1˚C to 1.3˚C.

Yet the net-zero targets announced by 50 countries offer hope that the worst impacts of climate change can still be avoided, according to a UN report. Many such targets have yet to be translated into detailed plans, but still, if implemented they could limit global warming to 2.2˚C by the end of the century. Such pledges "could make a big difference", the report said.

*More hot air seems inevitable*

©Getty Images

### Mugged by reality

It's not too late to stick to the original target and head off climate catastrophe, says Martin Wolf in the Financial Times. Pledges of net zero 30 years from now are "too easy". It is "necessary to cut emissions by close to 40% by 2030 instead". That is "economically and technologically feasible, if hard" and will require tighter restrictions than those agreed in Paris. A report from the Energy Transitions Commission last month laid out what needs to be done: rapid reductions in the emissions of methane; halting deforestation and starting reforestation; decarbonisation of the power sector and the rapid phasing out of coal; accelerated electrification of road transport; decarbonisation of the heating of buildings and sectors such as cement making, aviation and shipping and accelerated improvements in energy efficiency. Success will demand agreement from big polluters such as China, India and Indonesia, as well as rich-country laggard Australia, and generous assistance and subsidy from rich-world governments.

"The problem with all this, of course," says Emily Carver for Conservative Home, "is reality." Britain has committed itself to hugely expensive yet vaguely defined measures, while struggling even now to keep the lights on. But the "harsh truth" is that all this will be worthless unless other countries follow suit. Acting alone, or even with similar-minded nations, will make little difference, as the independent Climate Change Committee acknowledges. Many high-emitting nations are avoiding the Cop summit altogether, or stalling when it comes to committing to carbon targets. China, for example, has said that fossil fuels will form less than 20% of its energy mix by 2060, and that coal emissions will peak by 2025. Yet it continues to invest in new coal mines and last year built more than three times as much new coal power as the rest of the world combined. Meanwhile, the build up of warming gases hit new highs, even as emissions fell due to Covid-19 shutdowns.

Despite this, the government is ploughing ahead, promising "massive, though unquantified, sums" on the climate venture, all funded by "the magic money tree", says Philip Johnston in The Daily Telegraph. Add it to the cost of Covid-19 measures (see below) and other commitments, and the mind boggles at the sums involved – it's enough to make one wish for a conservative government. Indeed it does, says Madeline Grant in the same paper. Our government is instead wedded to "utopianism and top-down diktats". A conservative approach to the environment would be rooted in personal responsibility, property rights and stewardship – to "local attachment and not global control", as the late Roger Scruton put it. Boris Johnson's "playbook often seems more Greta than Roger".

# The welcome return of cost-benefit analysis

*Javid: playing a different tune*

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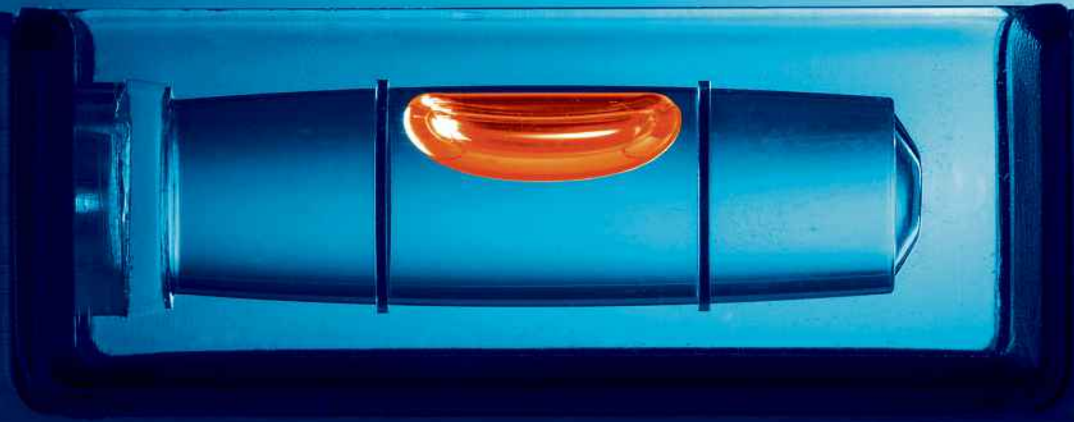
**The government insisted last week that "plan-B" measures – mask mandates and work-from-home orders and the like – did not seem likely even as it nervously eyed rising Covid-19 cases. This week a civil servant revealed that "plan C" – bans on household mixing, for example – was also under discussion, even as health minister Edward Argar denied it, reports The Guardian.**

**The government has come under pressure from scientific advisers to act ahead of winter, but the "mood music" in the halls of power is now very different from what it was this time last year, says Fraser Nelson in The Spectator. Then, the Cabinet Office was run by Michael Gove, one of the most pro-lockdown ministers, who, with Matt Hancock as health secretary, sought to "amplify Sage worst-case scenarios" to bring around a "wavering" prime minister. Now both men are gone, to be replaced by Sajid Javid and Steve Barclay – both have expressed concern about the costs of Covid-19 measures.**

**Cost-benefit analyses are now being done and documents leaked to Politico reveal that Boris Johnson has been warned that plan-B measures would cause up to £18bn of damage, with uncertain and likely small benefits if the restrictions were imposed. Indeed, the imposition of so-called Covid-19 passports could even have the opposite of the desired effect, as sports fans, for example, crowd into pubs to watch games rather than watch them in spacious stadiums. "The chances of plan-B restrictions are starting to look a lot less likely than they were last week," says Nelson.**

**Such prudence comes too late for other measures. A Commons inquiry this week found that England's "test and trace" service wasted "eye-watering sums" on inflated salaries for consultants and unused laboratory capacity and contact tracers, says the Financial Times. A total of £37bn was earmarked for the project over two years, almost a fifth of the annual NHS England budget.**



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## Mountain View, California

**Big Tech's big profits:** Alphabet, Google's parent company, reported a revenue increase of 41%year-on-year to $65.12bn for the quarter ending on 30 September – its highest sales growth in 14 years. Operating profits reached $21bn, nearly three times the previous year's figure. The results were due to small firms pouring money into digital advertisements as the shift to online shopping continues, says Tripp Mickle in The Wall Street Journal. Alphabet is riding so high on the economic recovery that investors might have forgotten about its "antitrust boogeyman", but the search engine remains highly vulnerable to regulatory probes, says Gina Chon on Reuters. An anti-trust lawsuit by state attorneys on advertising-technology revealed that because of its digital market dominance, it can charge up to four times the fees of other online advertisers. The Justice Department is also cracking down on Google's dominance in search and in Europe the search engine is appealing a $5bn antitrust fine. Google wasn't the only Big Tech firm to report an earnings boom: Microsoft's quarterly sales grew by 22% year-on-year to $45.3bn. Workers returning to the office have invested in the latest software and the ongoing transition to cloud computing has also boosted sales. Microsoft has dodged the microchip shortage, as it relies largely on data travelling over the internet.

## Washington DC

**Corporation tax plan unveiled:** Democrats in the US Senate have announced a 15% minimum tax on the income of large companies as they seek ways to raise $2trn over a decade to pay for President Joe Biden's social spending and climate change agenda, say Richard Rubin and Theo Francis in The Wall Street Journal. While the rate of corporation tax would remain unchanged at 21%, big firms that would otherwise have avoided or deferred their tax obligations would be hit by the minimum tax, which limits the tax breaks they would have enjoyed in any one year. Around 200 businesses would be affected, including manufacturers and tech companies, raising hundreds of billions, according to the plan's sponsors. The White House has backed the proposal. Plans to tax the unrealised capital gains of billionaires are to follow. US consumer confidence increased in October, ending three months of declines, as the number of new cases of Covid-19 has started to ease. Households are planning home, car and major appliance purchases. Almost half the confidence survey's respondents plan to take a holiday within six months, the highest proportion since March 2020.

## Britain's rapid recovery

Chancellor Rishi Sunak (pictured) unveiled his second Budget of the year on Wednesday. The Office for Budget Responsibility (OBR) now expects economic output to expand by 6.5% this year, up from the 4% growth predicted in March, and for the economy to return to its pre-Covid-19 level in the new year. It thinks growth will slow to 6% in 2022.

The OBR's expectations for this year mean that the "recovery from the depths of the pandemic is faster than expected", says BBC News. Unemployment is now also expected to peak at just 5.2%, a vast improvement on the 12% that had been feared in July of last year. That equates to two million fewer people unemployed, the chancellor said. Underlying debt will reach 85.2% of gross domestic product (GDP) this year, peaking in 2024, before falling back to 83.3% in the following three years.

There is also good news when it comes to our longer-term macroeconomic prospects, says Capital Economics. The OBR initially assumed that the pandemic would permanently shrink the size of the economy by 3%, but it has now revised its estimate of "economic scarring" to 2%. Hence some "giveaways", such as the eye-catching tax cuts on beer and sparkling wine, a 50% business-rates discount for the hospitality sector, and spending rises over the next few years equivalent to a 3.8% increase in real terms each year: Sunak announced an increase of £150bn in departmental spending by 2025.

The National Living Wage will increase by 6.6% to £9.50 per hour. It was, said Sunak, "a major commitment to the high-wage, high-skill, high-productivity economy of the future". Levelling-up remains a key theme: £5.7bn is to be spent on London-style transport systems across city regions. Still, says Samuel Tombs of Pantheon Macroeconomics, only some of the windfall from upgraded economic forecasts is being spent. Sunak is hoping to have enough scope to cut taxes before the next election.

Private investors, meanwhile, will be glad this Budget was "more about Prosecco than pensions", says Nick Ritchie of RBC Wealth Management. There will be no cut in pension tax relief or increases to capital gains tax. But the bad news is with that income-tax thresholds being frozen and national insurance set to rise, "household incomes continue to be eroded in real terms".

## Brasília

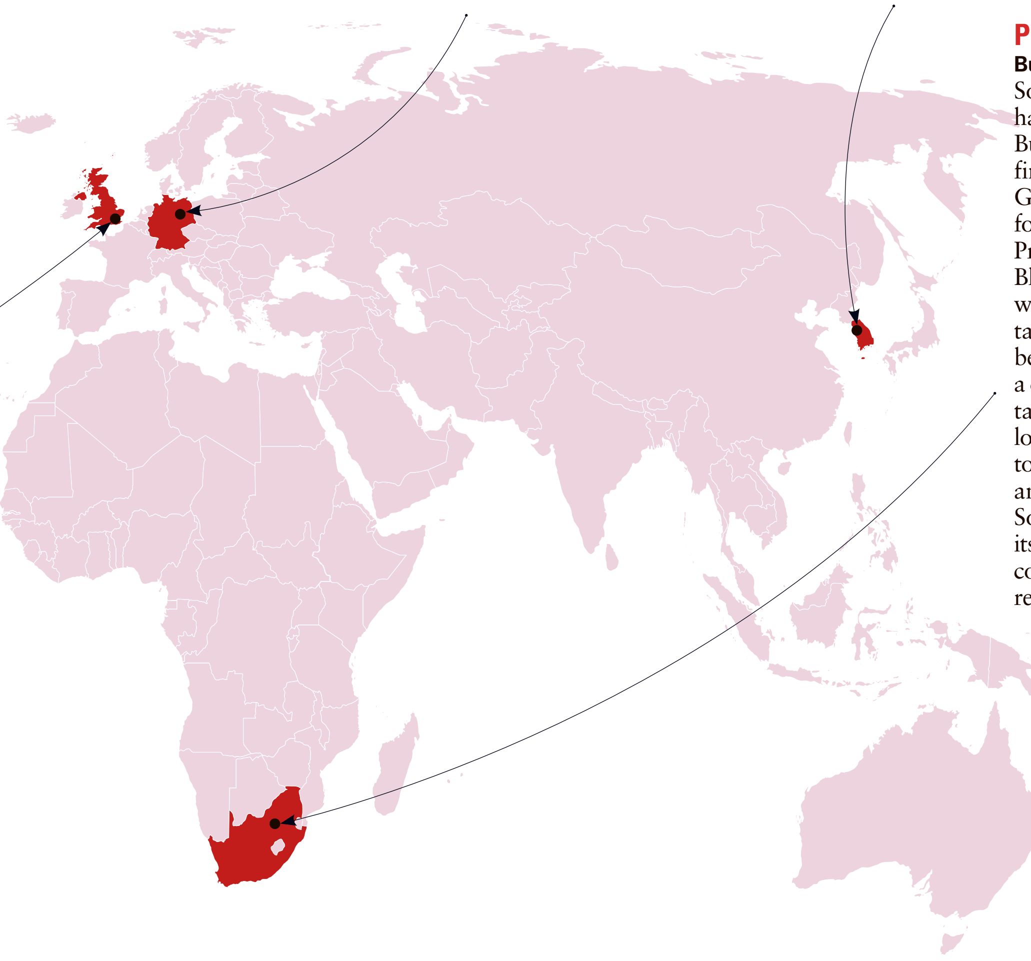
**Senate attacks president over pandemic performance:** Brazilian senators have recommended that president Jair Bolsonaro (pictured) face a series of criminal indictments for his handling of the pandemic, says the Associated Press. The six-month committee investigation culminated in the approval of a report calling for prosecutors to try Bolsonaro for everything from charlatanism and inciting crime to misuse of public funds and crimes against humanity, holding him responsible for the world's second-highest Covid-19 death toll. Bolsonaro has denied wrongdoing and ultimately the decision rests with Bolsonaro-appointee prosecutor general Augusto Aras, who is widely thought likely to protect him. Even if the charges are not filed the report will prompt criticism of the president, whose ratings have dropped ahead of his 2022 re-election campaign. Last week economic chief Paulo Guedes vowed to stay in his role after four members of his team resigned, including the treasury secretary and the special treasury and budget secretary, says Bloomberg. They all cited concern over Bolsonaro's "fiscal largesse" and Guedes's "unwillingness to push back". Guedes defended the government's push to increase aid to the poorest: Bolsonaro wants Congress to pay poor Brazilians 400 reais (£51) a month in the run-up to the 2022 vote.

## Berlin

**Supply chains hamper economy:** Germany has cut its economic growth forecast for 2021 from 3.5% to 2.6%, say Holger Hansen and Christian Kraemer on Reuters. The semiconductor shortage, caused by supply-chain disruptions stemming from the pandemic and a surge in demand "in an increasingly digitalised world", has hurt manufacturing output. Shortages of raw materials are also preventing companies from meeting rebounding demand. Consumer-price inflation, meanwhile, is set to jump to 2.9% this year. A "new, more diverse and younger" Parliament convened this week following last month's election; Bärbel Bas (pictured) from the centre-left Social Democrat party (SPD), the largest party, was elected as parliamentary president. The SPD is in talks to form a coalition government with the Greens and the Free Democrats by early December, which would oust Merkel's centre-right Christian Democrats after 16 years in power.

## Seoul

**Social-distancing hurts growth:** The South Korean economy grew by an unexpectedly slow 0.3% in the third quarter, the lowest rate in five quarters, as lacklustre consumption and construction activity offset strong exports, says Nikkei Asia. Private consumption generates almost half of South Korean GDP, but fell by 0.3% in September owing to the effect of more stringent social-distancing measures, which was compounded by a heatwave. The Bank of Korea expects the economy to grow by 4% in 2021 after a 0.9% contraction in 2020. Economists are concerned that global supply-chain disruptions and inflation could dent growth in the fourth quarter. Hyundai Motor says the global shortage in computer chips will disrupt vehicle production and crimp sales in the fourth quarter and early next year. The warning follows a 14.8% decrease in operating profit from the second quarter. Meanwhile, former president Roh Tae-woo, who became Korea's first democratically elected leader in 1987, died last week. His political career ended in "ignominy with a jail sentence for treason and corruption".



## Pretoria

**Budget speech delayed:** The South African government has delayed the maiden Budget speech of finance minister Enoch Godongwana (pictured) for a second time, says Prinesha Naidoo on Bloomberg. The closely watched speech, which usually takes place in late October, had been rescheduled for next Thursday to avoid a clash with municipal elections. It will now take place on 11 November. Investors will be looking for clues on how the country intends to reduce debt, currently at 80% of GDP, and lower its annual overspend. Fortunately, South Africa can expect a windfall from its vast mineral wealth owing to higher commodity prices. Tax and mineral-royalty revenue is likely to exceed initial estimates by 169bn rand (£8.3bn) this year, according to financial services group Absa. The International Monetary Fund predicts that GDP will expand by 5% in 2021, before slowing to 2.2% in 2022. Inflation slowed to 0.2% month-on-month in September, with the annual rate now 5%. Meanwhile, Eskom, the state power utility, said it would extend scheduled blackouts due to a shortage of electricity generation capacity. Enforced outages over faults at its coal-fired power stations regularly reduce growth in Africa's most industrialised economy.

## The way we live now: keeping an eye on cryptocurrency investors

*Look this way for a universal basic income*

©Alamy; Getty Images

Cryptocurrency start-up Worldcoin wants your eyes. It has offered more than 100,000 people iris-scanning in exchange for the firm's digital token, says Miles Kruppa for the Financial Times. Investors are encouraged to scan their eyes using hardware devices called "orbs", which then produce a unique code allowing free access to the Worldcoin cryptocurrency. The iris-scanning is designed to stop people claiming multiple rounds of free coins, co-founder Alex Blania has said. The firm also offers bonus coins to those who can convince other people individuals to join. Around 30 orbs are currently being used on four continents, and the firm's longer-term aim is to distribute 4,000 orbs worldwide. The group has already scanned 130,000 people. Worldcoin has raised $25m in capital and plans to reach one billion users by 2023. The upshot? The project "amounts to one of the most ambitious and complex attempts to hand out cryptocurrency to the world's population, similar to the concept of universal basic income". Quite how popular it will prove given the volatility of cryprocurrencies remains to be seen, however, while the iris-scanning has raised privacy worries – although the company says the images are deleted after being turned into code.

# The huge potential of mRNA technology

The new technology made its name when it delivered Covid-19 vaccines in record time. But it could be pressed into use in many other areas too. Simon Wilson reports

Katalin Karikó: a pioneer in mRNA technology

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### What are mRNA vaccines?

Conventional vaccines work by training the immune system to recognise and fight viruses or bacteria by introducing an inactivated form of a virus (one that has been rendered harmless) into a patient's body. However, the biotechnology used in the mRNA vaccines made by Pfizer/BioNTech and Moderna is fundamentally different. The aim is the same: to train the immune system to recognise and fight off the virus. But these new vaccines accomplish this by using synthetic "messenger RNA" to deliver a snippet of viral code to your body in order to teach your immune system what the relevant disease-causing virus looks like. Then, if your system encounters the virus, your body is primed to mount a defence using specialised antibodies and T-cells.

### What exactly is mRNA?

Messenger RNA (ribonucleic acid) is a polymeric molecule – naturally produced and essential to all known forms of life – whose principal job is to tell cells which proteins to make. To make an mRNA vaccine, scientists produce it synthetically in a laboratory. When injected, the synthetic mRNA goes to an area of the body's cells called the cytoplasm, where it is turned into proteins that look like the relevant proteins of the virus. This primes the cells to help them fight off infection if your body later encounters the real thing.

### Is the technology new?

It has been in development since the late 1970s – going through numerous hurdles and breakthroughs over the decades but never before authorised for use. Katalin Karikó, the Hungarian-born, US-based biochemist who pioneered mRNA research in the 1980s, is now a senior adviser to BioNTech. In early 2020, scientists there and at Moderna, who had been researching potential mRNA applications for influenza and cancer, were able to switch their focus within days of China sharing the genetic sequencing of the novel coronavirus – with results that far exceeded most expectations. "The beauty of mRNA technology is the speed, in that once you have the genetic sequence, you can identify exactly what you need to put in the code of your vaccine, and you are giving instructions to the target that the immune system can respond to," John Bowler, of the Schroder Global Healthcare Fund, told Bloomberg. "It really changes the whole dynamic on infectious diseases."

### What else is being developed?

While the Covid-19 vaccine rollout continues, the race for the next generation of mRNA therapies – targeted at a variety of other diseases – is already intensifying, says Stephen Buranyi in Wired. Moderna and BioNTech each have nine candidates in development or early clinical trials. There are at least six mRNA vaccines against flu in the pipeline, and a similar number against HIV, Nipah, Zika, herpes, dengue, hepatitis and malaria have all been announced. And the pharma giants are snapping up promising researchers for huge contracts. Sanofi recently paid $425m to partner with a small US biotech called Translate Bio; GSK paid $294m to work with Germany's CureVac. But the potential for mRNA is not limited to infectious diseases. There is also much excitement about the potential of mRNA in treating certain rare genetic diseases (caused by defects in or deficits of proteins) and cancer (targeting cancer cells in the same way that the immune system targets infection).

*"The race for the next generation of mRNA therapies is already intensifying"*

In the field of regenerative therapeutics, mRNA might also help in the growth of new blood vessels (in research by Moderna and AstraZeneca).

### Will this make other vaccines obsolete?

It's highly unlikely in the foreseeable future. First, not every current vaccine technology works for every target, and it's highly unlikely that mRNA will prove effective – or the most cost-effective solution – in every scenario. Existing efforts to develop mRNA vaccines against other diseases (for example by Moderna and GSK in 2016 and 2017) have been much less successful than the vaccines developed successfully for Covid-19, and the reasons for that are not yet fully understood. Second, there remain big issues to solve around stability and affordability of manufacturing if mRNA vaccines are to reach all corners of the world – and the shipping and super-cold storage of mRNA vaccines requires expensive infrastructure. That suggests a diversity of vaccine types will remain necessary. And third, where effective, cheap, established vaccines already exist, there's no good reason for drugs companies to switch to a completely new platform. All that said, there's no doubt mRNA vaccines have transformed the sector from the point of view of investors.

### Who's doing well?

Moderna and BioNTech are the names everyone knows. However, rival CureVac's near-50% stock slump in one day in June – on disappointing trial results for its mRNA Covid-19 vaccine – is a good example of the sector's risk. Other focused biotech firms using non-mRNA technology include Novavax and Dynavax (both in vaccines), while Vir Biotechnology is developing antibody treatments for Covid-19, says Suzanne Woolley on Bloomberg.

### Any other tips?

In the wider supply chain – for example makers of the ingredients in vaccines, diagnostics and testing companies, and even makers of rubber stoppers, syringes or speciality glass products – businesses worth investigating include West Pharmaceutical Services, Becton Dickinson and Germany's Gerresheimer, says Woolley. Other possibilities are Catalent, which specialises in delivery technologies for drugs and biologics, and Corning, which makes vials. Germany's Evonik Industries supplies lipids needed for the Pfizer/BioNTech vaccine. Spanish pharmaceutical company Rovi bottles Moderna's Covid-19 vaccine and Switzerland-based Lonza produces some of the ingredients that Rovi bottles for Moderna.

# Many happy returns – Fidelity Asian Values celebrates 25 years

The Fidelity Asian Values investment trust has celebrated its 25th anniversary. It's a period of time that has seen some extraordinary events across the globe and investment markets – from the Asian financial crisis of the late 1990s, to the dotcom bubble and bust, to the 2008 financial crisis.

But more specifically, it has coincided with a period of dramatic change and growth for Asian economies. The rapid emergence of China as a new superpower is the most obvious example of this shift in economic gravity from West to East, but it's far from the only Asian economy to make great strides during this period.

This extraordinary growth has been reflected in the trust's performance. If you had invested £1,000 in the trust at launch, then by the end of June this year, it would have grown into £5,725. That compares to £4,130 for the trust's benchmark (the MSCI Asia ex-Japan index) and £4,504 for the FTSE 100*.

## Growth vs Value debate

So, where do we stand today and what can we expect in the future? The pivot towards growth stocks between 2016-2020 has led to the widest dispersion between growth and value stocks in almost 100 years - similar to 1999.

This is not abnormal or inconsistent with history - this is the normal cycle of markets. As the last 25 years have shown, markets are prone to excesses and depressions - both of which tend to mean revert and correct. Whether it was predictions in 1999 that the "old economy was dead" or predictions in 2007 of "peak oil", market hyperbole is seldom correct.

There is no reason to believe that this time will be different. We continue to believe that the most time-tested way to preserve and grow capital is to own good businesses run by honest people and buy them at a margin of safety. The trust is fully focused on owning quality businesses at attractive prices.

The aggregate data and individual holdings of the trust continue to reflect this philosophy. We own a set of businesses which make superior return on equity to the market but are available at much cheaper valuations.

## Lessons from the past 25 years

The most important lesson of this period has been that to preserve capital, one has to avoid speculative excesses. As equity investors, we will not be able to avoid the volatility of stock markets but by avoiding "hot areas" and inferior businesses we can avoid permanent loss of capital.

Owning good businesses run by honest people and owning them at attractive prices gives us the best chance to accomplish this. The board, the portfolio manager and Fidelity's research team are focused on making sure that we stay true to this.

As for the wider Asia story, there are plenty of countries ready to pick up the baton from China in terms of big growth stories over the coming 25 years. India, Indonesia, the Philippines and Vietnam hold particular promise, with their large, youthful populations.

### Past performance

| | Sep 16 - Sep 17 | Sep 17 - Sep 18 | Sep 18 - Sep 19 | Sep 19 - Sep 20 | Sep 20 - Sep 21 |
|---|---|---|---|---|---|
| Net Asset Value | 11.7% | 1.1% | 5.6% | -7.0% | 34.4% |
| Share Price | 14.5% | 8.9% | 7.4% | -15.8% | 42.6% |
| MSCI AC Asia ex Japan Small Cap (N) Index | 18.8% | 4.4% | 2.2% | 12.4% | 35.1% |

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 30.09.2021, bid-bid, net income reinvested.
©2021 Morningstar Inc. All rights reserved. The MSCI AC Asia ex Japan Small Cap (N) Index is a comparative index of the investment trust.

### Important information

The value of investments can go down as well as up, so you may get back less than you invest. Investors should note that the views expressed may no longer be current and may have already been acted upon. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. Overseas investments will be affected by movements in currency exchange rates. The Fidelity Asian Values Investment Trust invests in emerging markets which can be more volatile than other more developed markets. This trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies and the securities are often less liquid. This trust uses financial derivative instruments for investment purposes, which may expose it to a higher degree of risk and can cause investments to experience larger than average price fluctuations. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility.

### Fidelity Asian Values PLC

Asia is the world's fastest-growing economic region, offering investors a potentially unparalleled long-term opportunity. But with more than 18,000 listed companies, the challenge is knowing in which direction to head.To find the companies which could turn into tomorrow's front runners requires an extensive intelligence network of local analysts across Asia. Fidelity Asian Values PLC portfolio manager Nitin Bajaj couples that with an approach that seeks mispriced, quality businesses run by trusted people. **To find out more, scan the QR code, visit fidelity.co.uk/asianvalues or speak to your adviser.**

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# Investors go wild for Trump's Spac

And if that's not a signal that we're nearing the top of the market, it's hard to know what is

**Matthew Lynn**
City columnist

The IPO of Pets.com, a business with a plan so flimsy it fell apart on its first contact with reality... The moment in the late 1980s when the price of Japanese assets soared to such extravagant levels that the land beneath the Imperial Palace was worth more than the whole of California... Every bull market has a moment that crystallises just how over-hyped, and over-exuberant, prices have become. We may have just seen this bull market's final moment of madness: last week's deal to take Donald Trump's new social-media network public.

### A way to hear more from Trump

You might have thought you'd heard the last from the 45th president of the United States. Already 75 years old, after a bruising four years in power, and with a, er, how shall we put this, colourful career behind him, it might have seemed a good time to play some golf, chat to a ghost writer about his memoirs, and perhaps try some charity work. Not a bit of it. The Donald is as busy as ever, working on what looks like a run to retake the presidency in 2024, even though he would be 78 on taking office. He is also launching a new social network to be called, with the complete lack of irony that has always been his trademark, "Truth Social".

Last week, the network went public through a special purpose acquisition vehicle (Spac) called Digital World Acquisition Corp. Investors, especially the new breed of web-savvy day traders, were falling over each other to get a piece of the action. The share price almost tripled on its first day of trading and was up another 100% the following day. Over the course of a week, the stock was up tenfold, making a

*Who can handle the Truth?*

©Getty Images

fortune for the hedge funds that had backed it and anyone who got in early enough. It is now valued at more than $3bn. Its purpose, special or otherwise? Apparently "to create a rival to the liberal media consortium and fight back against the 'Big Tech' companies of Silicon Valley, which have used their unilateral power to silence opposing voices".

True, you will be able to get the former president's take on just about anything in the news, now he is no longer on Twitter, if that happens to be vital for your daily life. And yet for a $3bn valuation, you might have been hoping for a little more in the way of substance. Some financial projections, for example, or forecasts of advertising, some detail on how it would persuade increasingly woke corporations, fearful of backlashes from liberal, millennial customers, to commit money to the new network. Perhaps some cashflow projections, or notice of staffing levels, software requirements or a launch date? But so far there has been very little sign of any of that. Investors are just being asked to pile in on the basis of the Trump brand.

### An investment for the deranged

To any objective observer, it seems a genuinely terrible idea. For all the bluster and hype, Trump is a terrible businessman. One or two property deals might have worked out, but over five decades he has created a sprawling mess of debt-laden companies, none of which have ever lived up to expectation. It is hard to see anyone but a few extremists signing up to a Trump-branded social network. And social media is a crowded space. Anyone trying to muscle into it will have to contend not just with Facebook, a firm that will spend billions to protect its market, but competition from the likes of Google, Amazon and Apple, all of which would like a bigger slice. It is very hard to see space for a new player.

In truth, only a market that had turned completely irrational would back Trump's latest venture in the way it just has. The Spac boom of the last year already looked worrying. Investors were throwing billions of dollars at companies with only the vaguest of prospects, all of which will end up competing for the handful of decent businesses that are looking for a way to list their shares. But the Trump Spac is completely deranged. Investors are buying into a wave of hype, with no substance to it, and almost no realistic prospect of ever making any money. If that is not a signal we are approaching the top of the bull market it is hard to know what is.

## Who's getting what

● A little over three-quarters of shareholders in the London Stock Exchange Group have agreed to hike the annual salary of chief executive **David Schwimmer** (pictured) by a quarter to £1m in light of the exchange's $27bn takeover of data firm Refinitv in January, says Reuters. But given that 23% of investors dissented, the board said it would consult with shareholders further. Schwimmer earned £6.9m in total last year, up from £2.5m in 2019.

● Fashion house Burberry has appointed **Jonathan Akeroyd** as its next CEO from April next year in a deal that includes a £6m "golden hello" spread over four years to cover the loss of bonus and share awards for leaving his position as the boss of rival firm Versace, says The Guardian. His pay package is reported to also include a £1.1m base salary, with a maximum bonus of twice that figure, and a share plan worth 162.5% of annual salary.

● The boss of insurer LV=, **Mark Hartigan**, could "rake in millions" if he succeeds in selling the business – currently a mutual owned by its 1.16 million members – to American private-equity firm Bain Capital for £530m, thanks to a potential ownership stake he could be handed, says the Daily Mail. Hartigan joined LV=, formerly Liverpool Victoria, last year, weeks before hiring advisers to sound out a sale of the firm. His salary would stand to increase under private-equity ownership from the £1.2m he made last year. If the deal is agreed by regulators, it will demutualise the insurer.

©Getty Images

## Nice work if you can get it

**Wall Street bankers have short memories. Earlier this year, Goldman Sachs chief executive David Solomon had his pay docked by 36% to $17.5m for 2020 (down from $27.5m a year earlier), in addition to being made to hand back $10m for the bank's role in the 1MDB bribery scandal, involving the Malaysian investment fund, says Sridhar Natarajan for Bloomberg. Now, just months later, Goldman Sachs is awarding Solomon and his top deputy, John Waldron, a special bonus of around $50m, based on the current share price. Solomon and Waldron, the bank's chief operating officer, will receive 73,264 and 48,843 respectively in performance-based restricted stock units that will vest over five years, equating to roughly $30m and $20m. The bank shattered its revenue and earnings records this year thanks to a frenetic period of dealmaking and market volatility in the first nine months of 2021.**

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# Don't spread yourself too thin

Holding too many small positions often means more stress and higher costs without improving returns

**Cris Sholto Heaton**
Investment columnist

*It may not make sense to worry about China's plans*

Last week I read an article in which a group of professional investors gave their views on whether investing in China is still worth the risks. This is an important question – and one that we'll be looking at in MoneyWeek next month. Yet when I saw how little many of these investors had committed to China in the first place – maybe 3% or 4% – it didn't seem worth any of them taking time to worry about the situation. An investment of this size in China or any other country is too small (given the likely returns) for it to make much difference to long-term performance.

Assume you invest 95% of your portfolio in investments that match the very long-term global return on stocks (about 6% per year after inflation over the last 50 years). You invest the last 5% in a country that does much better: it returns 12% per year for the next decade. Then, ten years later, your portfolio is worth 3.6% more than one that simply returned 6% per year. Alternatively assume your 5% investment is wiped out (eg, the government shuts down the entire stockmarket). Your portfolio would be worth 2.2% less than one which just tracked the global average. These differences aren't zero – but in reality they'll be washed out by other decisions you make.

## Go index or go active

Of course, holding small positions makes sense if you're an index investor (see below). For example, China accounts for 4% of the MSCI AC World index, so if you are using this as your benchmark, that's the amount you should hold. You don't need to think any further about the risks and returns – your entire philosophy is simply to track the index. However, if you're following an active strategy, the size of the positions needs to be big enough that they can have a real impact – otherwise you're wasting time, effort and trading costs on decisions that aren't meaningful.

*"Active positions need to be big enough to have a real impact"*

How big a position should be depends on what you're buying. Some individual stocks might outperform the average by 15% per year over a decade, so a portfolio of 20-30 stocks where each starts as 5% or even 3% of the total can still beat the market by a decent margin if you have a few big winners. Equally a few big losers could really dent your wealth, which means holding, say, just ten small caps is too concentrated and risky for my taste.

Conversely, that kind of return is unlikely from country funds (even when you're hugely bullish – see right). US equities returned 16.8% per year for the past decade, while the rest of the world returned 8.4%, and that gap was exceptional. So with a few exceptions – eg, a high-risk bet on a very cheap country – about ten well-diversified positions (ie, not all in the same region) of 10% is usually at the upper end of what makes sense.

## I wish I knew what an index fund was, but I'm too embarrassed to ask

Index funds (also known as passive or tracker funds) aim to track the performance of a particular index, such as the FTSE 100 or S&P 500. The funds may hold all, or a representative sample, of the stocks in the underlying index (physical replication), or replicate the performance of the index by buying derivatives (synthetic replication).

The aim is to minimise tracking difference (the gap between the performance of the index and the fund). Since the goal of an index fund is to match the index, significant outperformance is as concerning as significant underperformance (even if it might not feel like that to an investor), because it suggests problems with the way the fund is being run.

Index funds can be traditional open-ended funds (unit trusts or open-ended investment companies [Oeics]) or exchange-traded funds (ETFs) listed on a stock exchange. Investment trusts are almost never used as index funds because – unlike ETFs – they have no mechanism to keep the fund's share price in line with the value of its assets.

The first index fund open to ordinary investors was the Vanguard Index fund, which launched in the US in 1975. Rivals were sceptical as to whether it would ever succeed, arguing that people wouldn't be satisfied with merely matching the market, but the concept caught on.

The big advantage of passive investing is cost: a FTSE 100 index fund can have an annual charge of well under 0.1% a year. An actively managed fund could easily charge ten times as much, with no guarantee it will beat the index (most don't over time). A closet tracker is an active fund that sticks close to its benchmark index to avoid underperforming the market too drastically (and thus losing clients). Investors in a closet tracker are being charged the higher fees of active management in exchange for passive performance or worse.

## Guru watch

**Rakesh Jhunjhunwala, founder, Rare Enterprises**

Indian stocks will grow at double-digit rates in the coming years, reckons billionaire investor Rakesh Jhunjhunwala. The man known as "Big Bull" and – inevitably – "India's Warren Buffett" thinks that annual returns are likely to be around five percentage points higher than GDP growth, which he expects to be around 7%-10% per year. Steps the government has taken over the last few years to increase the country's growth potential combined with greater participation in stocks by domestic savers are extremely positive for the Indian market. "We are in the middle of a bull phase which will last for a very, very long time," he told Bloomberg earlier this year.

*India's bull run will continue*

Jhunjhunwala began trading in 1985, with Rs5,000 (£49), then borrowed more from a client of his brother to invest. Today, he's worth the equivalent of £4bn, according to Forbes. He made substantial profits shorting stocks at the end of a bull market in the early 1990s, but sees few signs that the current boom is about to suffer the same fate, says The Economic Times. "The majority of India is questioning [this market] and not participating… I only see doubts even as the market is at an all-time high."

Top picks include banks, because the bad-debt cycle is turning for the better, and healthcare, where rising GDP should boost spending, he told CNBC-TV18. But he's cautious about initial public offerings (IPOs) such as food-delivery firm Zomato. "It's important what I buy but it's more important what price I buy… And at these valuations, I have no interest," he told Bloomberg.

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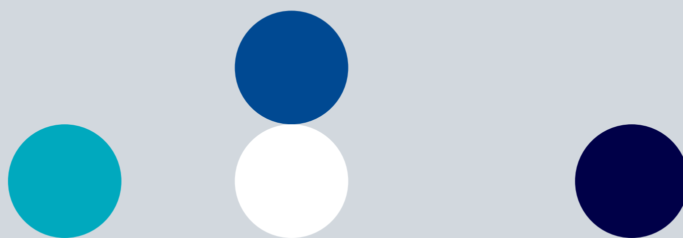

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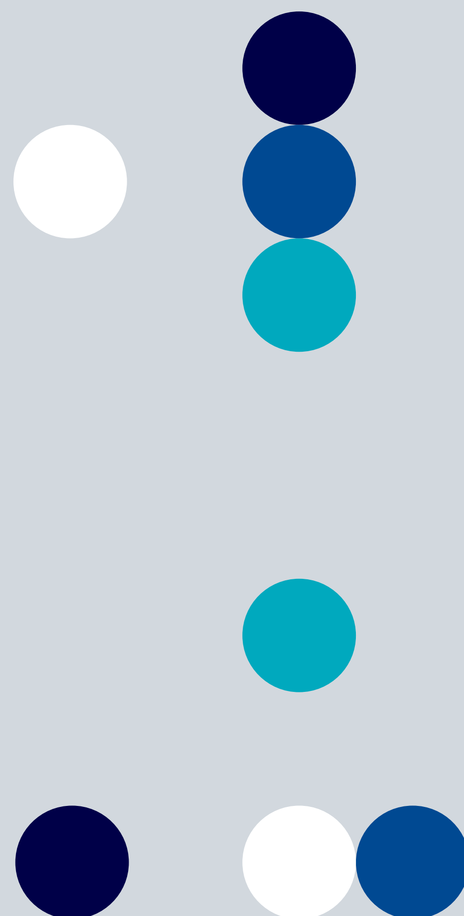

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## A better way to soak the landlords

**Tom Spencer**
**CapX**

Public investment in infrastructure is "all the rage" given the commitment to "levelling up", says Tom Spencer. But who reaps the rewards of such investment? Society in general in the form of better transport and a more productive economy. But, on an individual level, those gains are "trifling" compared with what ends up in the pockets of landlords. The Jubilee Line extension in London, for example, cost taxpayers £3.5bn, but property owners along the route saw a £13.5bn uplift in values. There are two ways to claw this loot back. "Tax increment financing", for example, has proven successful in the US – the government offsets the cost of construction against future revenues from business rates paid by firms operating in the area that benefit. And a "proportional property tax" could be used to recoup the windfall to residential properties – the idea is to scrap stamp duty and replace council tax with a 0.48% levy on annualised property values. To protect the asset-rich yet cash-poor, such as pensioners with expensive homes, this could be capped at £1,200 a year, or the bill deferred until the point of sale. Even so, the current system is so distorted that 76% of households would see an immediate reduction in their tax bills as a result.

## Nigeria's slide into chaos

**Editorial**
**The Economist**

Nigeria is a powerhouse, says The Economist. Africa's largest economy generates 25% of the continent's GDP. But it is "sliding towards ungovernability". The "jihadist threat in the north-east has metastasised"; elsewhere "demagogues are stirring up grievances" and criminal gangs have "run wild". In the first nine months of 2021, 2,200 people were kidnapped for ransom, more than double the total figure for 2020. The key problem is a sick economy. The post-2014 slump in the price of oil, which comprises half of state revenues, had pushed 40% of the population below the national $1-a-day poverty line by 2019. An "inept and heavy-handed" government has compounded the problem. After the oil slump, President Muhammadu Buhari tried to stimulate production by cutting off imports and promoting the production of domestic goods, but only succeeded in causing shortages and food inflation. Meanwhile, pervasive corruption has stoked resentment. Nigeria's complacent "cosseted political elite" needs to wake up and restore confidence by ensuring that the police and the military obey the law. Otherwise Nigeria might slip into a "downward spiral".

## The tide turns against Duterte

**Richard Heydarian**
**Nikkei Asia Review**

After five years of "populist incompetence", Rodrigo Duterte's ruling coalition in the Philippines is "starting to resemble a sinking ship", says Richard Heydarian. As the country heads towards elections, Duterte's popularity ratings are in freefall, plunging by as much as 21% over the last nine months. He oversaw one of Asia's worst Covid-19-related recessions as well as some of the region's highest infection rates. His "scorched earth" drug war caused "mass atrocities" and is being investigated by the International Criminal Court. (He has openly admitted that his main reason for wanting to stay in power is to avoid being brought to account.) And there has been "a wave of corruption scandals" involving the purchase of overpriced medical equipment (Duterte reacted by threatening the investigators). The race to replace him may look like a "chaotic circus", with Duterte's allies, and former allies and heirs of the former dictator Marcos, all vying for the top job. But hope lies with Leni Robredo, the de facto leader of the opposition, who has vowed an end to the "old, rotten" politics and rebranded her camp as the progressive and liberal option. This is a "historic opportunity to rescue and revive a battered democracy".

## How to get Britain building

**John Kay**
**Prospect**

"It is a truism that Britain needs more houses," says John Kay. But the government's recent plan to revamp planning laws to encourage more building "turned to dust" after it was cited as key to the Conservatives' defeat in the Chesham and Amersham by-election earlier this year. In the 1950s, by contrast, the Tories produced 300,000 houses a year. Since the 1980s this figure has halved. So what's gone wrong? Blame the "long-term emasculation of local government". In the 1980s the government halted new local-authority building; housing associations and the private sector failed to fill the gap. The subsequent steady erosion of local governments' authority encouraged Nimbyism; they "had less power to improve their communities and were under pressure to just say no" to new projects. Powerful lobbies emerged to exploit this. We need to restore local authorities' power. Allowing them to retain business rates fully "would be a start"; it is also worth considering giving town halls "a greater share of the great gains in land value that follow planning being granted". It is an ideal time for change: "New metro mayors are champing at the bit."

## Money talks

**"As I think George Harrison once said: 'Keep the fame, I'll take the money!'"**
Singer Don McLean (pictured), quoted in The Daily Telegraph

**"I try to earn as much money as I can. If I could work overnight in a petrol station and get another couple of hundred quid and do without sleep, I would. That's just the work ethic I have."**
BBC Radio 5 Live presenter Stephen Nolan, who earns more than £405,000 a year, quoted in The Sunday Times

**"It's not a wealth tax, but a tax on unrealised capital gains of exceptionally wealthy individuals."**
Janet Yellen, US treasury secretary, clarifies her plans for a new wealth tax, quoted in The Hill

**"Because it was the only book out there about me, people would bring it for me to sign. I'd already read it and hated it... so what I started to do was – the book I think was £19 when it first came out in hardback – I would take the book and give the person £20."**
Comedian Dawn French on a biography of her, quoted in The Sunday Telegraph

**"Economy is going without something you do want in case you should, some day, want something which you probably won't want."**
Author Anthony Hawkins, quoted in Forbes

**"It was so chaotic. You're just trying to get through to the end of the day. And that's what's amazing about money. Money gives you choices. Money gives you self respect."**
Writer Daisy May Cooper on growing up poor, quoted in The Guardian

**"I didn't know we didn't have a lot of money till my mum was like: 'I'm not paying full price for Adidas when I can buy these two-stripe shoes for half the price.'"**
Comedian Gina Yashere, in The Sunday Telegraph

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# Where are the self-driving cars?

**quillette.com**

There's an obvious answer to the shortage of lorry drivers, says Randall Mayes – hire more robots. We have been told that the technology for driverless vehicles is within reach for years. So where are they?

## Road ahead closed for now

The technology has come on in leaps and bounds, but it has yet to reach level 5 – an industry classification which means a vehicle that can operate fully autonomously without any driver interaction. Currently, driverless vehicles "have a learner's permit" – level-3 cars have been made (they're not yet legal on British roads), which can drive autonomously but require a human to be alert and take over when needed. But barriers remain before we will see robots driving the streets.

The first barriers are the technological hurdles. Certain skills, including driving cars, aren't suited to learning by instruction – that would only work if you could anticipate all possible scenarios, which, in the real world, is clearly impossible. Instead, robots must learn from experience how to make decisions and navigate on their own. The technology for this exists, but how are robots to learn if they're not allowed to drive on roads? One option is computer simulation. Another is to build special testing grounds. The latter is best at providing real-world conditions, but is much more expensive to organise. Other barriers include dealing with the massive data-processing demands and the limits on battery technology.

The "worst-case scenario" is that driverless cars don't make it through such barriers. But even if Elon Musk did deliver functioning robocars, other barriers would remain. If roads are not well marked, robots won't be able to navigate lanes safely. A huge infrastructure providing for vehicle-to-vehicle and vehicle-to-infrastructure communications, real-time data processing and battery and charging technologies will also be needed. And then there's the question of whether the public will accept robots making life and death decisions on their behalf, and what the reaction will be when the first human is killed by a robot driver or hackers strike. It's also possible that driverless cars will increase congestion in some cities.

Still, researchers remain optimistic that these hurdles will be cleared. Billions of dollars have been invested. China has set a goal of 10% of vehicles reaching level 4 (fully autonomous, but only on specific roads) or 5 by 2030. Tech breakthroughs should "pave the way for infrastructural support and regulation. When they do, public acceptance will likely follow."

*He hasn't passed his test yet*

©Getty Images

# Don't fall for supply-side fairy tales

**conservativehome.com**

Boris Johnson says shortages of workers as a result of Brexit and the pandemic will boost wages and productivity. "It's difficult to overstate the shift in thinking necessary for Tories who grew up under Thatcher to believe that supply-side restrictions are good for the economy," says Ryan Bourne. There is scant evidence that restricting the flow of migrants will result in rising pay overall, even if it does put money in the pockets of a few lucky lorry drivers. "Keyboard economists" say firms should simply raise pay and invest in workers to solve the shortages. But they're saying that to industries struggling to hire at all. A shortage of labour will raise wages, all else being equal, in the industries affected. But wages are a business cost, "not just something employers can adjust without consequence". In reaction, profit-seeking firms will raise prices, cut workers' benefits, slash services, or leave the sector entirely if profits are squeezed too tightly. Some say migrant restrictions will incentivise investments in productivity-enhancing technology. But encouraging otherwise uneconomic investments by creating shortages of workers clearly makes us worse off overall. It is profits that drive the adoption of efficiency-enhancing technologies. By suggesting otherwise, the Tories risk falling for the "supply-side fairy tales of the left".

# The mob versus Prince Charles

**thecritic.co.uk**

"Say what you like about King Louis XVI of France, but when they led him to the guillotine, he probably wasn't spluttering that he'd paid into the *Ancien Régime* all his life," says Henry Hill. Today's electorally dominant classes are not likely to be led to justice by an uprising of the oppressed, but we are always hearing their spluttering whenever politicians dare suggest more houses need to be built. Even Prince Charles, whose new developments might be expected to please those who insist they have nothing against housing developments if only they were tastefully designed, is faced with a mob of comfortable home-owners complaining about the "monstrosity" being built on their doorsteps. Meanwhile, the government is beating a retreat on its proposed reforms to the planning system.

*There's no pleasing some people*

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You can't blame the government. In a democracy, it must listen to those who put it in power. But the warnings of sociologist Michael Young have come to pass. In a meritocracy, those at the top presume they have earned their right to be there and hence feel no obligation to those trying to come up behind them – it's all *oblige* but *sans noblesse*.

# Slaughter the special interests

**conversableeconomist.blogspot.com**

In the first half century of US history, most business legislation took place at the state level and was mainly about rewarding political insiders and granting "goodies" to favoured interests, says Timothy Taylor. From around 1850 this began to change and state constitutions were rewritten to require laws to "be general and of uniform operation throughout the state".

The proximate cause for the change may have been the rising debt burden – costs to the state could be lowered if companies were forced to stand on their own two feet. There were also some unexpected and positive results. When the law allows anyone to start a bank, not just the politically connected, then a separate regulatory apparatus becomes necessary, requiring financial prudence and so on. States that "slaughtered special interests" in this way went on to see better growth too. One reason the US financial sector is overrepresented in New York is that New York was one of the first states to allow banks to be set up freely. There is a lesson here for politicians of all parties.

# The ABC of ESG funds

If you want to do well by doing good, look beyond the broader ESG category and adopt a narrower focus

**David Stevenson**
Investment columnist

The last few years have seen a surge of interest in environmental, social and governance (ESG)-focused funds. These assess potential investments' success in cutting carbon emissions and improving racial or social diversity and governance.

Two subcategories of the ESG strategy are socially responsible investing (SRI) and impact investing. When it comes to SRI, investors actively favour sectors such as healthcare or renewable energy and avoid businesses such as tobacco firms.

By contrast, a broader ESG strategy might hold Royal Dutch Shell in its portfolio because on some screens it scores well for reducing its emissions (not least by being focused on natural gas). Impact investing, meanwhile, focuses on a particular area to achieve positive, measurable outcomes.

Clean-energy stocks look overpriced on several measures

©iStockphotos

## Running the numbers

ESG investing relies heavily on numbers-led screening based on data sets frequently provided by established market-data firms, such as MSCI or IHS Markit.

There is some debate about how these are constructed, where the data is sourced from (usually the reporting firms) and why it varies so significantly.

The self-reporting of data has prompted experts' calls for uniform, perhaps even legislated, accounting standards. Other critics point to the relative lack of data on social statistics. Very few screens look at CEOs' pay, wage differentials or labour representation.

Many ESG strategies lean heavily towards equities with a growth bias that favours technology companies. This has helped many ESG funds to outperform "conventional" equities in the last few years.

But as Vincent Deluard of US-based investment house StoneX observes, the trend has created a skew towards companies that overpay CEOs, employ fewer staff than their old-economy counterparts, invest less in capital expenditure and pay less tax. Tens of billions of pounds are flowing into ESG funds, partly due to their eco-friendly selling point. But there is a strong chance that both the energy complex and old-world cyclical industrial companies will significantly outperform the new world of ESG stocks in the coming months and years.

This could undermine ESG funds' appeal, especially if the clean-energy stocks – which look overpriced on several measures – start to depreciate sharply. London-based fintech Util argues that ESG is a broken model and that we need to replace it with something else. Cue SRI and impact investing.

## Finding alternatives

UK-listed investment trust **Menhaden Resource Efficiency (LSE: MHN)** launched in 2015 with a broad sustainability strategy. It made mistakes and its share price languished before the board narrowed its focus to profiting from the efficient use of energy and resources. This is a much more interesting remit and the fund is trading at an unreasonable 25% discount to its net asset value (NAV).

Impact investing carries risks, because many of the businesses likely to have an impact may not be very well established. But an excellent example is **Home Reit (LSE: HOME),** which generates an income by renting out property to the homeless and those struggling with addiction problems, thereby achieving a direct, quantifiable, social outcome.

Combined, these could constitute a socially responsible part of your portfolio. Forget the all-encompassing ESG approach and set a few objectives. Identify the impact outcomes you'd like to help achieve, then find funds that focus on this. Schroders and Big Society Capital are already backing specialist funds such as their joint Social Impact Trust. Concentrating on a few impacts might mean you don't tick every box: a business that focuses on emissions reductions may not have a great record in other areas. But you can help make a discernible difference.

## Activist watch

Shares in Macy's, the New York-based department store chain, jumped by nearly 18% this week after activist investor Jana Partners took a stake in the company and advocated hiving off the "booming" online business, which has about $8bn in annual revenue, says Sergei Klebnikov on Forbes. The move comes after one of Macy's biggest competitors, Saks Fifth Avenue, announced in March that it would be spinning off saks.com, which has around $1bn in annual sales, into a separate entity. Macy's, which also owns the luxury Bloomingdale's brand, was affected by closures during the pandemic, but has seen "impressive" growth in its online business over the last few years. Digital sales jumped by 23.7% last year.

## Short positions... beware of (most) new funds

■ **New releases, from iPhones to James Bond, are met with "huge enthusiasm", says David Brenchley in The Times. "But new does not always mean better." There are several things to consider when backing a new fund. The fund manager will have little to no record, and they may not be very good. Even if they are, past success is no guarantee: witness Neil Woodford and Anthony Bolton. "If you get it right, though, the rewards of investing in a newish fund can be huge." Had you invested £10,000 in Terry Smith's Fundsmith Equity fund in November 2013, three years after it launched, you'd have £38,498 today; if you had invested from the start, you would have £61,948. Smith's fund "had a clear", comprehensible proposition "that savers could grasp". A new fund worth researching now is the TB Amati Strategic Metals, launched in March. Performance is "lumpy", but miners have good long-term prospects. "Getting in at ground level could pay off."**

■ Saudi Arabia has launched a national infrastructure fund to support up to 200 billion riyals (£39bn) in projects over the next decade, says Reuters. The National Infrastructure Fund (NIF) is one of the development funds of the National Development Fund (NDF), a structure created in 2017 to supervise and collate several economic-development funds that were previously scattered around different agencies. NDF hired BlackRock, the world's largest fund manager, to advise it on establishing the fund. BlackRock opened an office in Saudi Arabia in 2019 to capitalise on the government's reform agenda. The fund will invest in areas such as water, transportation, health and energy. The aim is to help Saudi Arabia diversify its economy and become less reliant on oil revenue.

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# The genuine bargains in the investment-trust sector

A discount to net asset value should never be the primary reason for buying this type of fund, says Max King. These seven, however, look too cheap and boast encouraging long-term records

Everybody loves a bargain. The investment-trust sector appears to offer one of the best bargains available to investors: trusts whose shares trade at a significant discount to net asset value (NAV), the value of the underlying portfolio. These offer investors the prospect of enhanced returns as discounts to NAV narrow.

If you buy a trust on a 15% discount to NAV, and the discount disappears as the price rises to par, you have made 15% before capital gains or dividends on the underlying portfolio of assets. A discount to NAV offers downside protection too, as there is limited scope for the discount to widen further. Looking for trusts trading at an anomalously high discount is eternally popular. But does the strategy actually work?

Not as well as people think. Discounts can always widen further, although that should prompt the directors to take action. They can either buy back shares at a discount, thereby adding value for remaining shareholders, or switch managers to one who commands more confidence.

Alternatively, they can wind up the trust in whole or in part and distribute the proceeds to investors. The downside protection should work, but it may take time and performance in the meantime may be disappointing. Equally, there is no certainty about the timing of a discount narrowing, so the gain from it may be dwarfed by the underlying movement in the market or the manager's performance. A narrowing discount does not guarantee great returns.

## Cheap for a reason?

Many trusts that trade at wide discounts do so for good reason. The shares may be illiquid, probably because the trust is small and its costs high; the asset class might be out of favour with investors; the manager may have a poor record and the replacement, if there is one, no better; and the directors may be slow to react, perhaps because a dominant shareholder likes things just the way they are.

The sector's average discount was above 20% in decades past, but was negligible at the start of last year. It is now 3.7% and the average for the year has been 3.3%, so discounts have narrowed significantly over the long term, but widened a little recently.

The number of trusts now on discounts above 15% is small. Most of those should be avoided by all but the experts and activist investors prepared to buy large holdings and press for change. Still, there are a few larger trusts that stand out as being attractive. These well-established trusts have been neglected by investors who have rushed to buy the more recent innovation-heavy new launches, which trade at large premiums to NAV, but neglect the established funds.

*"Many top trusts are in private equity, where performance over all time spans has been excellent"*

## Rich pickings in private equity

A good number of the attractive trusts are in the listed private-equity sector, where performance over all time spans has been excellent. Moreover, NAVs are historic and nearly always conservative. **ICG Enterprise Trust (LSE: ICGT)** trades on a 24% discount yet its performance has improved since management moved to Intermediate Capital in 2016. Its annualised five-year total return to mid-2021 was 16%. Exits from 34 investments in the first half at an average gain of 26% over the valuation of the investment on the group's balance sheet suggest that the NAV is significantly understated.

The £1bn portfolio, 40% of which is now in North America, is moving steadily away from third-party investments (now 52%) to those managed by ICG itself (27%). "ICG gives us access to a very strong deal flow," says Oliver Gardey, lead manager. "This is a very good environment for new investments as well as for disposals." The top 30 investments are valued at 14 times historic cash flow, "a significant discount to companies in public markets", having generated 18% growth in revenue and 26% in cash flow in the last 12 months. The trust's shares yield 3.3%.

The main listing of **Canadian General Investments (LSE: CGI)** is in Canada, but the shares are also traded in London. It's off the radar of most UK investors, so the shares trade at a discount to NAV of 35%. The Canadian tax rules stipulate that CGI pays tax at around 20% on both income and capital gains, but that tax is refunded when distributed to shareholders: the group distributes realised capital gains as dividends along with the usual kind of payout. The yield on CGI's shares is 1.7% from 2020 income dividends, subject to a 15% withholding tax, and 0.6% from capital dividends, although this year's payout is likely to be much higher.

Top holdings include some US names with Canadian listings, such as semiconductor maker Nvidia and Amazon as well as Canadian ones such as Shopify, Lightspeed, an e-commerce software maker, and TFI International, a transport and logistics group. Miners such as Franco-Nevada and First Quantum Minerals also feature in the top ten, as do West Fraser Timber and Canadian Pacific Railway, but no financials. CGI has multiplied investors' money 14-fold in the last 20 years and returned an annualised 20% in the last five years.

## Profiting from the plunge

The shares of **Pershing Square Holdings (LSE: PSH)** have risen by 10% in recent weeks owing to appreciation of a coup by US investor Bill Ackman, who owns 25% of this fund and runs its parent company, Pershing Square Capital. He secured a sizeable stake in Universal Music at a very attractive price prior to its recent listing. Yet the trust's shares still trade on a discount to NAV of 26%. The portfolio has returned 163% in the last three years, including 70% in 2020, when Ackman anticipated the stockmarket meltdown. Having protected investors by betting heavily that spreads between corporate and governments would widen sharply, he cashed in at the low and reinvested in equities.

The portfolio is highly concentrated with the top five investments typically accounting for over 60% of the portfolio and the top ten for 80%, but although it is classified as a hedge fund, its portfolio, excepting

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*Vietnam is one of the bright lights of the developing world*

forays into derivatives to protect the downside in times of strife, is long-only.

Managed for 40 years by veteran Christopher Mills, **North Atlantic Smaller Companies (LSE: NAS)**, with £900m of assets, trades at a 23% discount to NAV. The five-year investment return has been 116%, ahead of all the global trusts except the Baillie Gifford ones and Lindsell Train, while the annualised return since inception has been 13.8%. About 16% of the portfolio is accounted for by sister trust Oryx International, which trades at a 3% discount to NAV and has multiplied investors' money twelvefold in 20 years. At the last year-end, 14% of the NAS portfolio was accounted for by private equity, presumably conservatively valued. The remainder of the portfolio is in "special situations", in which Mills, as one of the most successful and feared activist investors in the UK, is keen to bring about change. Each report features a major battle, indicating that Mills is prepared to fight if persuasion fails to work. Mills owns 27% of the equity and NAS has been steadily buying back shares.

## A promising property play

Property investors have yet to forgive **BMO Commercial Property Trust (LSE: BCPT)** for slashing its dividend last year. Although recovery is under way and, based on a more affordable dividend, the shares yield 4.2%, they still trade at a 22% discount to mid-year NAV. Over three years, the share-price return has been -31%, but the investment return only -3%. Over 20% of the £1.2bn property portfolio is accounted for by St Christopher's Place Estate, just off Oxford Street in London. It comprises 150 lettable units of shops and restaurants , office suites and flats, and was badly hit by the pandemic. It should recover now that lockdown has ended and tourists are returning. Over half the portfolio is in London and Southeast England and over 40% in offices. The sale in September of a London office block for £145m, 11% above valuation, increased confidence in valuations, as have other recent sales. These sales will reduce debt of £310m at the start of the year and facilitate new investments. There has been a stream of good news from the rest of the portfolio, making it likely that the next valuation will show a useful increase. BCPT has been buying back shares.

## An emerging-market star

Vietnam is one of the bright lights of the emerging world, yet the **Vinacapital Vietnam Opportunity Fund (LSE: VOF)**, with £600m of assets, trades at a 23% discount to NAV. Around 70% of the portfolio is in listed equities, 14% in unlisted (but traded) equities, 12% in private equity and 4% in bonds and cash. A summer lockdown will have hampered the firms in the portfolio, but underlying growth is strong. Vietnam is benefiting from developed-world governments' growing distrust over trade with China and from a shift in manufacturing to Vietnam to exploit lower costs. Investors' scepticism looks unjustified.

Finally, **Caledonia Investments (LSE: CLDN)** is classified as an international trust although its focus is on private equity. Its shares trade on a 22% discount, but performance has picked up strongly in the past year, with an investment return of 28%. About 28% of the £2.4bn investment portfolio is invested in direct private equity; 30% is invested in third-party private-equity funds, 30% in direct equities ("we are long-term owners of companies, not traders") and 12% in cash. The funds give Caledonia exposure to sectors and regions not covered by the other parts of the business, while the cash has enabled CLDN to enhance NAV by buying back shares.

*"Christopher Mills is one of the most successful and feared activist investors in the UK"*

# Stablecoins: the future of money

This form of cryptocurrency might not yet be as well-known as bitcoin, but could prove more significant in the long term. Charlie Morris, founder of ByteTree.com, explains why

When most investors think about cryptocurrencies, bitcoin is still almost certainly the first asset that springs to mind. And one thing most people associate with bitcoin is its volatility.

Yet one corner of the crypto market, which is becoming increasingly important and visible (if not always for the right reasons) aims to have precisely the opposite characteristic – stability.

From as early as 2013, banks were blocking law-abiding citizens from interacting with cryptocurrency exchanges. That made buying and selling bitcoin difficult. So the crypto industry simply took the banks out of the equation and replaced them with "stablecoins". Put simply, a stablecoin is a dollar that lives on a blockchain.

A $1 stablecoin is worth $1, it's as simple as that. It can be traded easily for volatile assets such as bitcoin and ether. But it also offers crypto investors the opportunity to sit on the sidelines and hold a cash-like asset, one whose value is stable, at least in nominal terms (ie, ignoring inflation). Sometimes stablecoins even pay interest.

It's the best example of unintended consequences I have ever seen. In public the banks would say how interesting they considered blockchain technology to be, backing numerous incubators and tech hubs. Yet behind the scenes they were devoting even more resources to blocking transactions to and from crypto.

Banks were eager to quash the crypto revolution. Instead, by necessitating the creation of stablecoins, they made crypto stronger. The stablecoin market is now worth $134bn and its existence has made crypto even more self-sufficient and less reliant on outsiders. It shows us how, in the years to come, it is the banks, not crypto, that will have to fight for survival.

## Digital money

So what's the big deal? It's just a dollar on the blockchain. Don't we already have digital money? Well, most people think they already have digital money because there's an app on their phone that links to their bank, but they don't. They just have a traditional bank deposit that can be administered electronically. The tech is better, but the money is the same. It sits on the bank's balance sheet and, as we saw in 2008, that's not always a good thing.

Stablecoins are a form of digital money that knocks out the bank entirely. Prior to stablecoins, the only way to transfer money was via an intermediary – a bank or a payment processor, such as Visa or PayPal. A stablecoin, however, is a digital form of cash, and it is more mobile than a bank deposit.

You don't need a bank account, just a digital wallet, which can be downloaded for free. So it has the potential to find its way to any one of the world's roughly 7.5 billion mobile phones. You can send that dollar around the world, swap it for crypto, swap it for another currency, or even buy other assets, goods and services. Best of all, it is a bearer asset, which means it's yours, with no middleman in sight.

*"This form of money has the potential to find its way to any one of the world's roughly 7.5 billion mobile phones"*

*Will crypto break the buck?*

## How stablecoins work

Most stablecoins (Dai – see the box – is an exception) are backed by an issuer who manages a pool of (preferably) low-risk assets, similar to a money-market fund. Those assets would include short-dated US Treasuries, corporate bonds, money-market instruments and cash. The issuer would benefit from any interest received, with an obligation to maintain the value of the assets so that the stablecoin is always worth $1.

The first successful stablecoin was issued by Tether (USDT). It has grown to $70bn in circulation. It is beset by controversy – the founders have "interesting" histories and some believe the asset backing is not quite what it seems. It has also had many a run-in with regulators and was recently fined $41m by the US Commodity Futures Trading Commission owing to "not having sufficient monetary reserves, consistently enough, to say the eponymous stablecoin was fully backed by US dollars".

These questions over Tether have paved the way for new rivals. The main challenger is Circle (USDC), which has grown to $32bn over the past year. It has better relations with regulators and is more transparent. As a result, it is gaining market share. There are many other issuers in the crypto sector, such as Binance, Paxos and MakerDAO (see box).

More importantly, there are many outside the sector who would also like to be issuers, with the intention of making digital-bearer cash mainstream, such as Facebook's project Diem, formerly known as Libra. The future of digital cash is an almighty land grab, which is already well under way. The future players may one day hold more deposits than the banks themselves. No wonder the regulators are paying attention.

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## What could possibly go wrong?

A private company issuing a stablecoin guarantees its digital dollars are fully backed by real dollars, but things can go wrong. Whether it be due to deception, incompetence, or financial meltdown, a stablecoin will never have the guarantees of physical cash, because that comes from the central bank. Then again, we also saw money-market funds "break the buck" in 2008: they could no longer guarantee that $1 invested was matched by $1 of assets. Given the size of these funds, their failure put the entire financial system at risk and so they were bailed out.

The speed of the growth in stablecoins is astronomical, with most of the growth coming over the past year. According to the Bank of England's Jon Cunliffe, at $130bn, stablecoins account for just over 5% of all cryptoassets. That's more than doubled since 2020, when they represented around 2% of the total. And while their use in crypto payment systems has so far been mainly for payments within crypto markets, "there are some signs that they are just beginning to be used by wholesale financial market players" and large corporations, notes Cunliffe.

Central banks and regulators have been watching this growth and perhaps fear it will get out of control. If instead central banks can launch their own central bank digital currencies (CBDC) then, the theory goes, there will be no need for stablecoins or other private-sector solutions. Yet that line of thinking is incorrect.

The People's Bank of China has taken the lead in launching a digital yuan. This is ideal for snooping on the population's spending habits and potentially even blocking them from certain purchases. It would also enable the central bank to introduce negative rates by reducing your balance over time, which would certainly encourage more spending over saving. Some also see CBDCs as a form of geopolitical influence. For example, a digital yuan could find its way to the four corners of the earth and facilitate transactions far from home. This presents an opportunity for the yuan to catch up with the US dollar.

But there are risks. How embarrassing would it be for a central bank to see its CBDC hacked or face an outage? Its credibility would never recover. By contrast, if a privately backed stablecoin (of sufficient scale) faced a problem, central banks could heroically come to the rescue – just as they did for the money-market funds during the financial crisis.

## Changing how we interact with money

Currently, stablecoins don't sit on their own blockchains, but on public blockchains, such as Ethereum, Stellar, Algorand, Solana, or Tron. For example, Circle (USDC) sits on Ethereum. So in order to send $100 of USDC you have to pay a fee in ether (ETH), the cryptocurrency associated with the Ethereum blockchain, which is paid to Ethereum's miners for processing the transaction.

These fees vary with demand for blockchain space, and can swing wildly. A year ago, this fee would have been negligible. Last May, when crypto was all the rage, it would have been over $50. Now it is roughly $35. The trouble with this system is that you are paying for data rather than transaction value. That means a $1 transaction costs $35 to process, just as it would for $1m. But many more competing blockchains will join this list over the coming years. If $35 is too high – which it clearly is – then another solution will come along that offers lower fees (or there will be a "layer-2" solution – a subject for another day – that will transact "off chain", more or less for free).

The underlying megatrend is that money is being digitised. Digital-bearer money, which bypasses the current banking system, will change how we interact with money. That could be a stablecoin, a social network, a payments company, a bank wanting to keep up with technology, or even a central bank that cares little for a free society. There are endless possibilities on how this could evolve, but stablecoins will only grow from here.

*Charlie Morris is the founder and chief investment officer of ByteTree (bytetree.com).*

## The leading stablecoins

**Tether (USDT):** a *de-facto* money market fund wrapped in a digital token that is pegged to the US dollar. It is closely linked to the crypto-exchange Bitfinex, which has helped Tether's issuance of tokens grow to over $70bn. The integrity of the management and its asset backing have come under scrutiny.

**Circle (USDC):** USDC is regulated in the US and fully backed by US dollars, cash equivalents and US short-duration Treasuries with $32bn in circulation. As a result of regulatory scrutiny of Tether, USDC has ballooned, taking its market share from 14.3% of the stablecoin market to 24.1%. The firm behind Circle plans to list in New York via a special purpose acquisition company (Spac) called **Concord Acquisition (NYSE: CND)**, with backing from asset managers Marshall Wace, Fidelity and Third Point, who have financed the deal with $415m. Circle is expected to be valued at $4.5bn and will trade with the ticker CRCL, although a date has yet to be announced.

**Dai:** an Ethereum-based stablecoin soft-pegged to the US dollar. MakerDAO enables users to generate Dai by depositing various other cryptocurrencies on the Maker Protocol and borrowing against their value at variable interest rates. Alternatively, Dai can be bought directly with fiat on digital asset exchanges.

**Binance USD (BUSD):** BUSD is another fiat-backed, regulated stablecoin pegged to the US dollar. BUSD exists on three blockchains: Binance Chain, Binance Smart Chain and Ethereum. For every purchase of one BUSD, one US dollar is held in reserve. Paxos, the project's founder, releases monthly audits of reserves.

# It's time to pay back loans

## A third of small companies fear they may struggle to return state aid

**David Prosser**
Business columnist

One in three small businesses are worried that they will not be able to repay emergency Covid-19 loans. A survey by the consultancy EY of hundreds of small and medium-sized enterprises warns that with pandemic support for businesses now largely over, many firms have not recovered sufficiently to begin making repayments.

Default rates on Bounce Back loans and the Coronavirus Business Interruption Loan Scheme (CBILS), under which banks offered billions of pounds in government-guaranteed loans to stricken businesses, have so far been lower than expected.

However, business advisers point out that until recently support from government, such as the furloughing scheme, has continued to alleviate firms' financial worries. Now, however, these programmes have been withdrawn, with many banks also beginning to wind down emergency-assistance schemes.

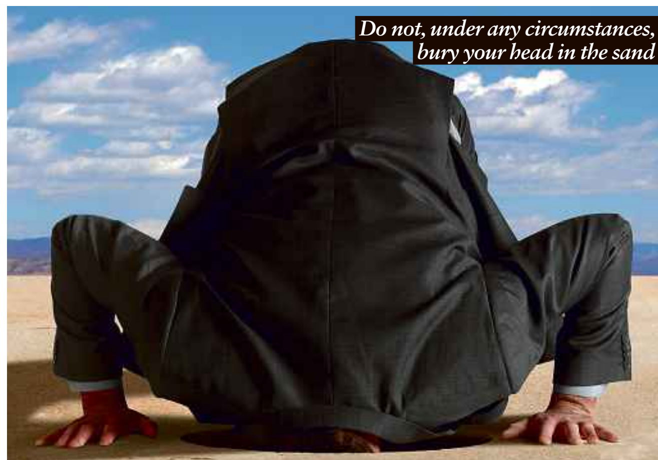
### Consider an extension

For firms facing repayment problems, the position varies according to the type of support they received. Bounce Back loans do at least offer a variety of forbearance options. You can extend the term of your loan from six to ten years, which will reduce the monthly repayment due.

It is also possible to shift to making interest-only payments for six months, and to do so three times within the term of the loan. And once you've made six monthly repayments, you can ask for a six-month repayment holiday on your loan.

By contrast, CBILS offers no automatic forbearance options. If your business anticipates being unable to make repayments, you will need to discuss your situation with the bank that made the loan as soon as possible.

Lenders may be prepared to offer the kind of support available under the Bounce Back loan scheme, but this is at their discretion and will depend on their assessment of the long-term viability of your business. One possibility could be to take advantage of the Recovery Loan Scheme (RLS), the government-backed scheme that replaced Bounce Back loans and CBILS at the end of March. The scheme offers loans of up to £10m and the money can be used to refinance existing debt.



*Do not, under any circumstances, bury your head in the sand*

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However, while most businesses are, in theory, eligible for the RLS, banks are required to assess whether your borrowing plans are viable. If you want to use the RLS simply to buy your business time, your application may be rejected.

Bear in mind too that the terms of the RLS are less attractive than those of the schemes it replaced. Interest rates are higher and repayments begin straight away, which is awkward for businesses that are struggling.

In which case, it is important that businesses explore all their options for funding. Don't assume your bank is the only possible source of help. For example, alternative finance providers offering invoice finance, asset finance, or other specialist types of borrowing could be an option for some firms. It might even be possible to raise funding by selling a chunk of equity in the business.

What business owners must not do, under any circumstances, is bury their heads in the sand. The earlier you engage with lenders, the more likely it is that you will receive a sympathetic hearing – all the more so if you can set out a credible plan for getting on top of the firm's finances as pandemic-related disruption begins to ease.

If necessary, take professional advice from a restructuring expert. They may be able to help you pick a path through the company's problems – and help you work with your lenders to get you past the immediate crisis.

## Insurance to fend off the lenders

Most business owners did not have to give personal guarantees when applying for Covid-19 financial support through the government-backed Bounce Back and CBILS programme. Lenders were barred from demanding such guarantees, which give them the right, in the event of a default, to go after borrowers' personal wealth rather than simply their business's assets – other than for the largest loans.

However, as businesses begin to refinance, personal guarantees are once again becoming more common, prompting calls for more business owners to consider taking out personal-guarantee insurance. This cover pays out in the event that the business gets into trouble on a loan where the directors have offered a personal guarantee; rather than the bank receiving redress from the directors, the insurer steps in to pay some, or all, of the debt.

Such insurance is worth at least considering. It will add to the cost of borrowing, with premiums typically payable monthly. And it is important to understand exactly what any policy covers: insurance only pays out in narrowly defined circumstances and may not cover your personal guarantee in full. Still, such policies can provide crucial reassurance for directors nervous about leaving themselves vulnerable through business borrowing. Personal-guarantee insurance is only available from a few specialist providers, so shop around for the best deal. Using an independent insurance broker makes sense.

## Is your firm too dependent on one person?

- Research suggests that more than half of small companies are so dependent on a key individual – an owner or manager, say – that they would go out of business within a year if that person were to die. But despite this risk, insurance brokers say only a small number of businesses have taken out key-person insurance. This cover pays out on the death or incapacitation of named individuals at your business, providing cash to help pay for recruitment, cover loss of profits or repay loans.

- Business owners and managers may have to offer new staff flexible-working arrangements (which range from job-sharing to working from home) from day one in the job under new proposals. Ministers are consulting businesses on whether employees should be allowed to request flexible working as soon as they start a job, rather than having to wait 26 weeks for this right, as the law currently dictates. While some businesses have expressed concerns about the plans, the rules do allow managers to turn down flexible-working requests where there are reasonable business grounds for doing so.

- Could the controversial IR35 rules be in line for a reform? The IR35 system came into effect last year to combat disguised employment, whereby workers can reduce their tax bills by calling themselves self-employed when they are really working for a company. But the rules are under fire from businesses who say they are contributing to severe labour shortages in many sectors, including logistics, because some jobs have now become less financially attractive.

# How to give a hand-up

Getting your children onto the property ladder is far from simple

Nicole García Mérida
Writer & editor

Some parents may be able to gift or lend their children a deposit to make sure they can secure a mortgage, but this is not an option for everyone. There are other ways to help family members get on the property ladder, but keep the risks in mind.

## Equity release

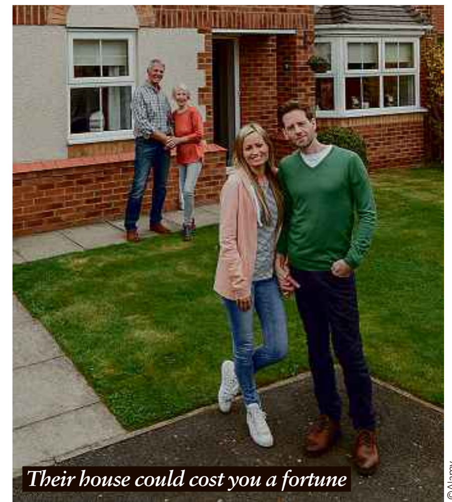
Those over 55 are increasingly exploiting the value of their property to help fund children's own home purchases, say Rupert Jones and Shane Hickey in The Guardian. Between April 2020 and June 2021, those eligible withdrew £830m of equity from their homes, of which £425m of that went into helping family members get on the property ladder, according to equity-release advisory firm Key. There are twice as many equity-release products on the market as there were two years ago, and the lowest interest rates is 2.5%.

There are two types of equity-release options, says Money Helper. One is a lifetime mortgage: the parent takes out a mortgage secured against their property, while retaining ownership. They can then choose to make repayments (but this rarely occurs) or allow the interest to be added to the loan. The total is then repaid by selling the property when the last borrower dies or is moved into care. The other option is home reversion. You sell part or all of your home in return for a lump sum or a series of payments. You can still live in the property, but have to maintain and insure it. Once the borrower dies, the property is sold.

The problem here is that the cost of these plans builds up over time. Once the loan plus interest is repaid, there may be little to no money left after the sale. The longer the loan is held, the more money will need to be repaid. If you take the loan out aged 55 there will be considerably more interest to pay than if you borrow at 70. One way to avoid this is to secure a drawdown lifetime mortgage, which would allow borrowers to take cash as they need, meaning less interest is accrued.

## Joint mortgages

Joint mortgages allow parents to buy into a property with their children. Because the parents' earnings are also taken into account, they can allow a child to buy a more expensive house. But this is only an option if the parents are still working, and if they have a mortgage of their own it could mean getting a second mortgage. It could also be considered a second home, which could have tax repercussions if the home is sold; an extra 3% of stamp duty may be payable. Joint mortgages also link the parents' credit score to their child's. Any mis-steps on the latter's part could have a negative effect on the parents' ability to secure credit in the future.



*Their house could cost you a fortune*

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## Guarantor mortgages

With guarantor mortgages, the parent takes on some of the risk by acting as a guarantor. This might mean they use their savings or home as security against the loan, and agree to take over mortgage repayments if the home owner misses one. Some of these products allow borrowers to take out 100% of the property's value by using parents' collateral in place of a deposit, says Which. There are obvious pitfalls: if a child misses a payment, the parent would have to pay, and if the property is repossessed both the child and the parent would be liable for any shortfall if the property is sold for less than what is still owed on the mortgage. Aside from savings or a property, guarantors would need to have a good credit history.

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# Duke's princely return

Britain's only listed royalty-finance company chooses its clientele wisely, making it a compelling income play

**Dr Michael Tubbs**
Investment columnist

With interest rates well below inflation, it is difficult to find deposit accounts offering over 0.4%. I have therefore previously highlighted several large, stable companies with modest dividend yields just above deposit-account returns, but with reasonable growth prospects. This month I am recommending a smaller company with a unique business model that enables it to offer a much higher yield with moderate risk.

The company is **Duke Royalty (Aim: DUKE)**, which lends companies money in return for a royalty on future sales. It provides finance at a lower cost than private equity and does not take control away from the owners, as private-equity lenders do.

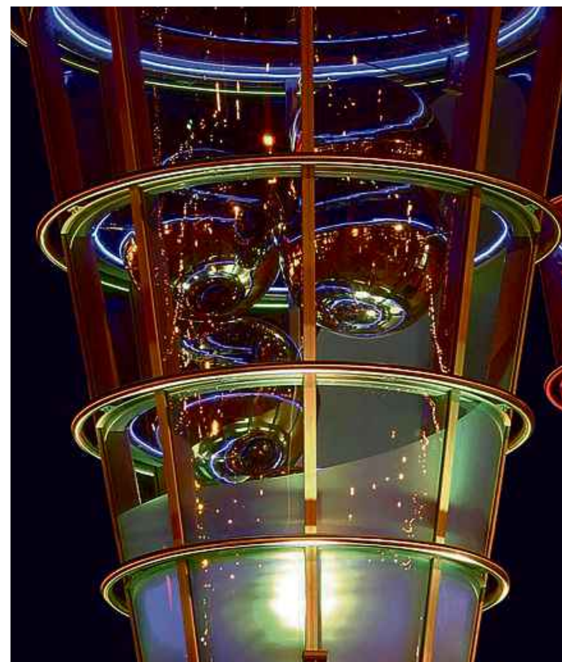
Duke typically offers between £5m and £20m and can give a decision on making the money available in about eight weeks. The royalty agreement can be likened to a corporate mortgage where both principal and royalty are paid back over a period of 25 to 40 years. The initial yield on Duke's investment is 12%-14% of capital provided and the royalty rate is reset upwards or downwards each year (between a 6% increase and a 6% fall, depending on the client's sales performance), so Duke participates consistently in a client's growth. The company can buy back the royalty after three years by paying the initial principal along with a 20% redemption premium.

### Royalty finance

Royalty finance is well established in North America, where it is a $50bn sector, and Duke has brought the idea to the UK and Europe. Duke is the only listed UK royalty company, having taken over its only British competitor, Capital Step, in 2019. Typical clients are well-established, profitable, owner-managed medium-sized businesses wishing to expand by acquisition, buy out a minority shareholder, or finance a management buyout from a larger company.

*"Typical clients are well-established, profitable, medium-sized firms"*

Duke tempers the risk in its investments by stipulating that royalty payments should be worth significantly less than 50% of a company's cash flow. Duke seeks firms with a sustainable competitive advantage. It avoids start-ups, oil and gas, mining and biotech companies, and aims to diversify by industry and geography. Two of Duke's typical client companies are United Glass Group (UGG) and Brightwater Selection. UGG is one of the UK's leading glass merchants and processors. Duke provided it with funding of £6.5m in April 2018, which allowed it to refinance existing debt and buy out a minority equity stake in a key subsidiary. A second investment of £4.5m facilitated the acquisition of London Architectural Glass and purchase of a key facility's freehold.



Brightwater Selection, a recruitment company, was a management buyout funded with £1.9m from Duke. A further £7.7m was provided to Brightwater in January 2020 to acquire PE Global,

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Top glass merchant United Glass Group has benefited from Duke's financing
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a leading healthcare and life sciences recruiter in Ireland. Duke's results for the year to the end of March 2020, the last before the virus, show that it had 12 royalty partners (clients) and made substantial follow-on investments in three of them, so that £20.4m of new capital was deployed during the year.

To finance expansion, it raised new equity of £17.5m and refinanced a revolving credit facility on better terms; the facility was also increased to £30m. Cash revenue for the year was £10.4m, up by 91%, with net cash inflow from operating activities £6.8m, up by 65%, and total dividends for the year 2.95p per share, up by 5%. Given the uncertainties in 2020 about the effects of Covid-19, Duke wisely preserved cash by paying the first two quarterly dividends of 2020/2021 as scrip dividends of 0.5p.

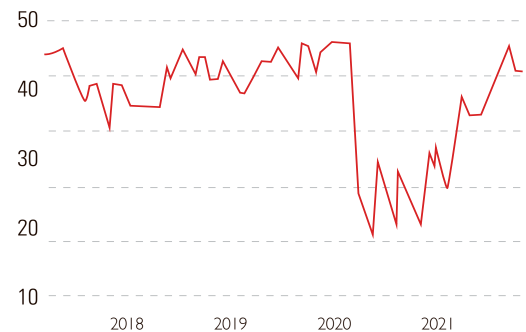
Still, the positive trading update for the third quarter of 202/2021 said the cash position had improved, so a cash dividend of 0.5p was paid. The results for the year to the end of March 2021 showed operating net cash flow up to £8.94m from £6.78m in 2020 and £4.11m in 2019. The 2020/2021 results encompassed the virus period and demonstrated the resilience of Duke's royalty model.

## A juicy and growing dividend

Duke's costs are fixed so increases in revenue work straight through to the bottom line. It is therefore encouraging that 2021 has so far seen five new royalty deals, including a £6.2m investment in Fabrikat (a well-established steel fabricator), and a new €10m agreement in June with Fairmed Healthcare Group of Switzerland .

There were more deals in July, August and September. Further investments have been made into existing partners, such as £6.5m in UGG to fund another acquisition. The first royalty partner in North America has been secured. Three exits so far in 2021 have raised £18m. Duke has liquidity of more than £55m to fund its growing pipeline of opportunities.

In assessing Duke as an investment, the key issue is whether the dividend can increase. This is determined by the number of new royalty partners and whether partners are well chosen and can grow their businesses to increase royalty payments. The virus in 2020 provided a stiff test of clients' quality and it is reassuring that the key measure of operating cash flow per share has increased from 2019 to 2020 and then again, to 3.68p per share, in 2021. This gives investors confidence in Duke's prospects. Its shares cost 50p in late 2019, fell to 19p and are now around 43p. Dividends of 2.25p were paid in 2020/2021, giving a trailing yield of 5.3%. The annual dividend yield has ranged from 5% to 8% since flotation in 2017.

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# Wealth Summit

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# OUR 2021 AGENDA

**9:15 - 9:30**
Welcome & Introduction from Merryn Somerset Webb, Editor In Chief, MoneyWeek

**9:30 - 10:15**
Value panel: Are UK value stocks the best opportunity in the world right now?

**10:45 - 11:00** Refreshment break

**11:00 - 11:45**
UK small cap panel: What the UK's top small cap fund managers are buying now

**11:45 - 12:00**
John and Merryn Q&A session 1

**12:00 - 12:45**
Resources panel: The energy transition: are fossil fuels or renewables the best way to play it?

**12:45 - 13:45** Lunch

**13:45 - 14:30**
Frontier assets panel: from crypto to NFTs, are there any opportunities for "sensible" investors?

**14:30 - 14:45**
John and Merryn Q&A session 2

**14:45 - 15:30**
Panel: Death of the 60:40 portfolio – how to replace your bond holdings

**15:30 - 15:45**
What now for Japan?

**15:45 - 16:15**
As tensions with the US mount, is investing in China still worth the risk?

**16:15 - 16:45**
Tech panel: The big trends and how to invest in them

**17:30 - 17:45**
John and Merryn Q&A session 3 and closing comments

# OUR SPEAKERS

Merryn Somerset Webb

John Stepek

Anna Macdonald

Nick Greenwood

James Henderson

Laura Foll

Simon Edelsten

# The best of British are ready to boom

A professional investor tells us where he'd put his money. This week: Chris Ainscough, manager of the Charles Stanley Monthly High Income Fund

At Charles Stanley we seek out top-quality British growth stocks: highly profitable companies with consistent earnings growth. Over the long term, these businesses should be able to reinvest their earnings and cement dominant market positions.

Such companies do come with a valuation premium, but time has shown that these premiums are justified, maintained and often grow in line with the businesses themselves.

We do allow ourselves scope to invest in shares that we consider to be misunderstood and therefore mispriced, or in assets that we deem highly specialist or unique. This ensures our portfolio isn't entirely dominated by one factor.

We have not reaped the full benefit of the "reflation/cyclical rally" triggered by the vaccine announcements last November, but take comfort in our performance through the pandemic correction and over the longer term. Committing to your strategy is crucial in investing and we did not want to flip the portfolio to chase the value factor through the early stages of this year.

We are fortunate to have a broad mandate within the Charles Stanley Equity fund, which allows us to look for attractive companies with different market capitalisations.

## Cashing in on e-commerce

**Boku (Aim: BOKU)** is a relatively new addition to our portfolio; it offers online mobile-payment services. Many readers may not have come across the company, given the prevalence of banking and credit and debit-card transactions in the UK. Boku has spent recent years building up an impressive, market-leading payment platform that allows users to pay for goods through their mobile phones.

It has invested heavily in its network and is now poised to capitalise on its expenditure. Profitability and sales look set to rise, with the latter underpinned by the spread of digital wallets. Boku is a promising play on e-commerce and digital payment systems.

## A successful transition

**Auto Trader Group (LSE: AUTO)** has long been a favourite of ours. This is a rare example of a print magazine making the transition to the digital world while vastly broadening its horizons.

The platform it offers both retail buyers and forecourt sellers is excellent and it boasts attractive opportunities for expansion. Auto Trader Group is not a cheap stock, but the margins are fantastic and the firm has consolidated its market position through the concessions it offered clients during the pandemic.

## Revamped and ready to deliver

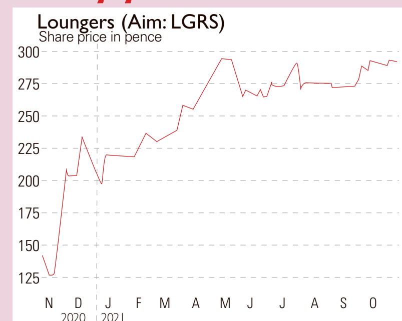
Occasionally, we see an already excellent business seeking to reposition itself for the future. This is not always straightforward. **LSE Group (LSE: LSEG)** seems to be in this category at present and investors are waiting for the new strategy to pay off.

*"Auto Trader Group is a rare example of a magazine successfully going digital"*

LSE Group has dominated the market-infrastructure and capital-markets arena for many years. Its acquisition of financial market-data provider Refinitiv shows that it has thoroughly embraced a data and analytics-driven future.

The transition has come with teething problems. However, LSE Group now has all the necessary components to become a financial-market infrastructure and data provider, which bodes well for the company's long-term prospects.

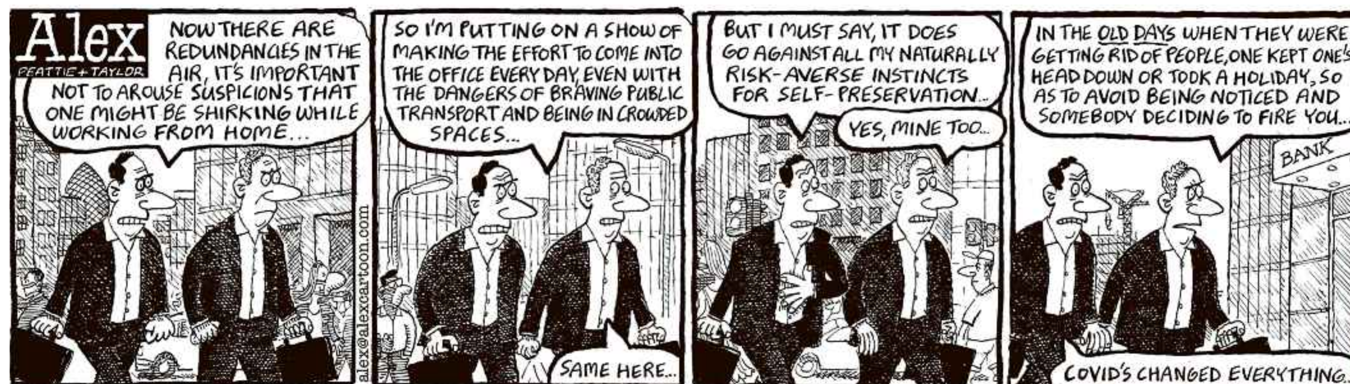
## If only you'd invested in...




**Loungers (Aim: LGRS)** operates 150 cafes and restaurants across the UK, including the Cosy Club and Lounge brands. The share price jumped after a trading update for the half-year to 3 October. The firm has performed strongly since people began eating out again in late May. Like-for-like sale growth from May to October was 27% higher than in the same period in 2019. Since the start of its financial year in May the company has opened 13 new sites, and another ten are planned in the next six months. The shares have jumped by 104% over the last 12 months.

## Be glad you didn't buy...

Shares in online retailer **ASOS (LSE: ASC)** dropped by 13% after the release of its full-year results to the end of August. It warned that profits for 2022 will fall to between £110m and £140m from £194m for this year – below several city forecasts. Revenue grew by 20% to £3.91bn, a new record high for the business. However, it remains unclear whether the company will be able to keep up this sort of performance after the pandemic, says The Motley Fool. Supply-chain disruptions have hit margins. Before the fall, the shares looked expensive, but they have declined by 45% over the last year.



# Making progress and profits at Pepsi

Indra Nooyi put the principles of stakeholder capitalism into practice at the soft-drink giant before it was fashionable and grew returns for shareholders too. Jane Lewis reports

"I've occasionally wondered whether there's something about Indians that makes them particularly suited to American corporate life," says Sathnam Sanghera in The Times. The roll-call of Indian-born CEOs who have run prominent US companies is impressive. Yet most are men. The first woman to break the mold is former PepsiCo boss Indra Nooyi.

Indian-born Nooyi has just published a memoir, *My Life in Full*, which she hopes will inspire more women to reach the top echelons, says the Financial Times. When she became PepsiCo's CEO in 2006, Nooyi was one of only 11 women running a Fortune 500 company. Things have improved since, but not by much. More than 90% of America's biggest listed businesses are still run by men. Few women who join companies like PepsiCo reach even the second or third tier of management. They face unconscious bias and unequal pay, she says. Then "the biological clock and career clock are in conflict with each other". Many have no choice but to "opt out of this incredible rat race".

©Getty Images

*"Companies are little republics. We have market capitalisations bigger than many countries. We are engines of efficiency"*

## A grim scramble to the top

Although Nooyi could rely on her husband and extended family when raising her own children, her "scramble to the top" sounds grim. At Boston Consulting Group, Motorola, ABB and then PepsiCo, "there were nights when she barely slept… and years when she was rarely home for dinner". The big driver, she writes, was pride. "I was determined that I wasn't going to let my family down."

Born in 1955, Nooyi grew up in Madras (now Chennai), the middle of three siblings "in a family where education was paramount", says The Daily Telegraph. In 1978, she won a scholarship to take an MBA at Yale. Nooyi found solidarity in a group of other international students and met her future husband, industrial engineer Raj Nooyi.

Yale had only just opened its business school and the "basic belief", then radical, "was that companies are members of society, and what you do has to be viewed as through a stakeholder lens, not just a shareholder lens." It was an ethos Nooyi would put to work during her 12 years leading Pepsi – mostly successfully, says The New York Times. As well as pushing into healthier foods, she instigated change on environmental practices. PepsiCo nonetheless grew net revenue by more than 80% during her tenure, delivering a total shareholder return of 162%. Nooyi is a strong believer that business, not government, should lead the response to environmental and social challenges. "Companies like ours are little republics. We have market capitalisations bigger than many countries in the world. We are engines of efficiency."

## Life after Pepsi

On leaving Pepsi in 2018, there were rumours she was being considered by the Trump administration for the position of World Bank president, says The Times – her name was apparently "floated" by Ivanka Trump, who considers her a mentor. It was not to be. Nooyi these days divides her time between the boards of Philips and Amazon, and teaching at the West Point military academy. Despite loving Pepsi, she claims "not to miss the company", says the Financial Times. It's probably a relief she no longer needs to be seen "sipping Pepsi or nibbling Doritos in public". In line with her general outlook, "dietary indiscipline is not Nooyi's style".

## Great frauds in history… *Thérèse Humbert's faked inheritance*

**Thérèse Humbert was born Thérèse Daurignac in Aussonne, France, in 1856. After her mother, a shopkeeper, died in 1871, she was brought up by her father, who falsely claimed that he was the heir to a great fortune. During her teens she invented a similar tale to persuade local tradesman to let her buy goods on credit, until she and the rest of her family were forced to flee to Toulouse. In Toulouse she used claims of another inheritance (from a "Mademoiselle de Marcotte") to persuade Frédéric Humbert, the son of the mayor of Toulouse, to marry her.**

©Getty Images

### What was the scam?

**Frédéric's earnings and support from Thérèse's father-in-law proved insufficient to cover her spending. Facing mounting debts and increasing scepticism about "Mademoiselle de Marcotte", she started claiming that she had been left a fortune after saving the life of an American millionaire, "Robert Henry Crawford", while he was having a heart attack on a train. As part of a supposed agreement with Crawford's nephews, the will had to remain locked in a safe until her younger sister Marie turned 21. She and her family then started to borrow against this inheritance.**

### What happened next?

**When Marie was about to turn 21 a legal dispute with the Crawfords was manufactured to further postpone the opening of the strongbox. Later Thérèse opened a finance house offering a high rate of interest, with the money going to satisfy her most insistent creditors. However, even this proved insufficient to keep the scam going and in 1902 a court order finally forced the safe to be opened, revealing that no will existed. In 1903 Thérèse and her husband were sentenced to five years in jail.**

### Lessons for investors

**Many creditors were too embarrassed to reveal the true extent of their losses, but one estimate suggests she swindled 90 million francs – 50 million from those who had lent her money against her "inheritance" and another 40 million from those who had invested in her finance scheme (a total of £380m in today's money). Perhaps it's no surprise difficult questions were not asked – Thérèse's father-in-law's political influence, for example, was enough to discourage some doubters. Still, red flags were on display, such as the fact that the "Crawford nephews" – impersonated by Thérèse's brothers – didn't speak with American accents.**

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## A Stunning Autumnal Selection

I know I bang on about value for money each month, but there is no reason for throwing good money at dreary wine, and while you might expect the elite merchants in our Club only to sell pricey bottles, this is simply not the case. This month, I have found six exquisite examples from Lea & Sandeman, which tip the scales at an average price of under £15 per bottle, and given their provenance and the winemaking genius behind these wines, this is an extraordinary feat of wine sourcing and fair pricing. Fill your boots.

**Matthew Jukes**

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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 £172 (saving £24.70 per case).** It's a chance for you to try them all, and it is the most popular choice with readers of *MoneyWeek*.

~~£15.50~~ £13.50

### 2020 Apremont, Sous le Roc, Domaine Fabien Trosset, Savoie, France

Imagine standing in the Savoie hills, glass of white wine in hand, chilled by the mountain breeze. The aroma of wildflowers is both on the breeze and in the glass. Its surroundings perfectly represent the pellucid liquid with its green-tinged fruit notes and bracing acidity of the rare Jacquère grape. It's a hell of a lot more interesting and unique than a commonplace Savvie B. Embrace this elite aperitif as it transports your palate to the foothills of the Alps.

**CASE PRICE: £162**

~~£15.50~~ £13.50

### 2020 Lugana, Felugan, La Feliciana, Veneto, Italy

I have always been a Lugana fan but am guilty of perhaps lazily going for the wines of the excellent and affordable Cà dei Frati. But La Feliciana has changed the paradigm. This sensational wine is not just affordable; it is a steal. Bristling with energetic acidity and blushingly beautiful pear and green apple fruit, this is a revelation, and it will perform both elite aperitif duties and all starters requirements, too, such is its depth of flavour.

**CASE PRICE: £162**

~~£12.95~~ £11.25

### 2019 Château Beaumont les Pierrières, Blaye Côtes de Bordeaux Blanc, France

M. Filliatreau, the owner of Château Beaumont, hit on a brilliant idea to bolster the panache and richness of his white wine. Each year, he ferments the early-picked Semillon and Sauvignon Blanc grapes in new barrels destined for his red wines. This ingenious idea makes a plush, lustrous and showy wine and a ridiculous bargain to boot. With unbelievable flavour, it can step up to main course fish and chicken dishes too!

**CASE PRICE: £135**

~~£19.95~~ £17.50

### 2019 Anjou Rouge, Sur la Butte, Château de Plaisance, Loire, France

Here we go! I have followed this wine for a good few years now, and in 'lighter' vintages, it sings a haunting and thoroughly mesmerising song, while in 'more concentrated' harvests, like 2019, it performs mini-miracles in the glass. Think Grand Cru Saint-Emilion depth of blackberry fruit meets pristine Loire Cab Franc freshness, and you are somewhere close to the majesty and excitement in this unassuming wine. Polished, sleek on the palate and one to watch.

**CASE PRICE: £210**

~~£15.50~~ £13.50

### 2020 Le Petit Roy, Domaine Jean Royer, France

French expressions often have more potency than English ones when describing certain wines. Le Petit Roy is a feu d'artifice (firework) with so much wonder it takes the breath away. It is a baby-Châteauneuf-du-Pape of sorts, but this ubiquitous expression loads it with weight and bulk, which it simply doesn't possess. This is a dark, swarthy and spicy wine stuffed with boysenberry and mulberry tones, but it is fresh, energetic, virile and swaggering on the palate and it will floor you with its charm.

**CASE PRICE: £162**

~~£18.95~~ £16.75

### 2020 Tim Smith Wines, Bugalugs Grenache, Barossa Valley, South Australia

I am a massive fan of this wine's sibling, Bugalugs Shiraz because it summons up the true identity of the variety, the skill of its winemaker and its historic wine region, while keeping the price at a manageable level. The same goes for this extraordinary Grenache. Made from ancient vines and harnessing 7% of 150-year-old Mourvèdre vines to add spice, this is a hedonistic, super-smooth, raspberry-themed brew that is already into its stride.

**CASE PRICE: £201**

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# Three spooky stays for Halloween

From a castle with a secret in Angus to a manor with ghostly residents in Norfolk. Chris Carter reports

## The Monster of Glamis

Glamis Castle in Angus was once the talk of the courts of Europe due to its supposed "dark and terrible secret", says Sean Murphy in Scotland's Daily Record. For in addition to the usual array of ghosts and ghouls haunting the childhood home of the late Queen Mother, there was also said to lurk a "monster". Numerous accounts of the Monster of Glamis were written at the turn of the last century, speaking of a secret chamber, wherein resided the "monstrous heir" of the 12th Earl of Strathmore. The unnamed Bowes-Lyon child was recorded as having died on the day of his birth, but many believed he actually survived, hidden away from sight. "If you could even guess the nature of this castle's secret," the 13th Earl reportedly once said, "you would get down on your knees and thank God it was not yours." *From £1,390 for two nights at Glamis House, which sleeps 12, glamis-castle.co.uk.*

## Anne Boleyn's ghost

Blickling Hall in Norfolk stands on the site of an old medieval manor, which is believed to have been the birthplace of Henry VIII's ill-fated second wife, Anne Boleyn, says Catherine Swan in the Daily Mirror. Her headless ghost is said to return to Blickling each year on 19 May as night falls on the anniversary of her execution in 1536. The hall is also reportedly home to many ghostly residents, including the spirit of Sir John Falstoafe, the inspiration behind William Shakespeare's character Falstaff. The "eerie dying groans" of 17th-century politician Sir Henry Hobart have also been heard from the West Turret bedroom. The National Trust has nine holiday properties on the estate, including Barn Owl Loft, which sleeps two. *From around £311 for three nights, nationaltrust.org.uk/blickling-estate*

## A haunted inn in Wales

Skirrid Mountain Inn in Llanvihangel Crucorney, near Abergavenny, is probably best known as Wales' most famous haunted spot, says Portia Jones for Wales Online. At least four spirits are said to linger within the walls of the former farmhouse – some with good intentions, others harbouring a vendetta. Among them is Colonel Prichard, who was the lord of the manor and an ally of King Charles I before joining the revolt against him during the Civil War. The inn is said to have existed on the site since the Norman conquest in the 11th century.

Over the centuries it has been used as a courtroom, while an oak hanging beam bears witness to its having also been a place of execution. Guests have reported the slamming of doors, footsteps and hushed voices. *From £75, skirridmountaininn.co.uk.*

## The birthplace of Guy Fawkes

The anniversary of the foiling of the Gunpowder Plot has been observed on 5 November every year since 1606, says Carlton Reid for Mail Online. While Guy Fawkes wasn't the leader of the gang who tried to blow up Parliament and the King, it is his effigy, the "Guy", that is traditionally burned on the bonfire on Guy Fawkes Night. And it is his notoriety that continues to draw visitors to the Guy Fawkes Inn in York. The inn

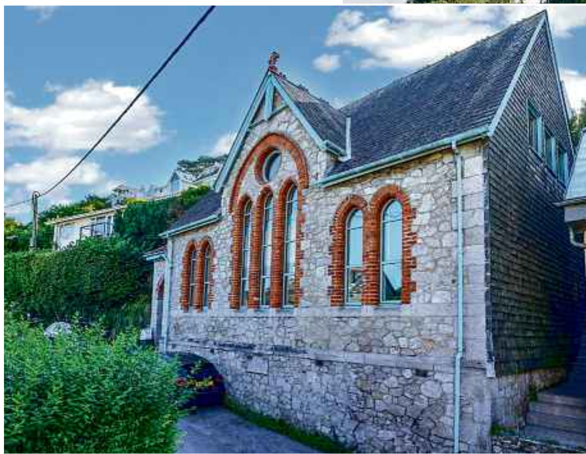
has a good claim to be the birthplace of the infamous plotter – not in the early-Georgian terrace, facing York Minster and the adjacent St. Michael le Belfry church, where Fawkes was baptised (that was built over a century later), but in the cottage at the back, which is now part of the inn. The rooms at the rear overlook the cottage and the narrow beer garden emblazoned with a bold mural featuring the plotters. "Our room had a four-poster bed, with sash windows filled with those killer views, and featured shabby-chic furniture on sloping dark-wood floors." *From £69 in low season, guyfawkesinnyork.com.*

©Alamy; Getty Images; Glamis Castle; Guy Fawkes Inn

This week: houses for around £800,000 – from a converted Methodist chapel just yards from the waterfront in Noss M

▲ **Jackmoor Cottage, Upton Pyne, Exeter, Devon.** A Grade II-listed rural cottage with a detached annexe and a summerhouse set in gardens with ponds,an orchard and a meadow. The house has exposed beams, oak floors and a wood-burning stove. 2 beds, bath, 2 receps, kitchen, paddock, 2.24 acres. £795,000 Knight Frank 01392-423111.

▶ **Knuzden Hall, Oswaldtwistle, Accrington, Lancashire.** A restored, Grade II-listed Georgian house with one unconverted bedroom suite. It is attached at the rear to an adjoining farmhouse and retains its original sash windows and period fireplaces. 4 beds, 2 baths, 2 receps, dining kitchen, gardens, 0.36 acres. £795,000 Savills 01625-417450.



▶ **The Old Chapel, Noss Mayo, Plymouth, Devon.** A detached, converted Methodist chapel just yards from the waterfront with a balcony overlooking the harbour. The open-plan living area has wood floors, a vaulted ceiling, a modern free-standing wood-burning stove and arched and circular windows that flood the house with light. 3 beds, 3 baths, open-plan kitchen/living area. £750,000 Marchand Petit 01752-873311.

Mayo, Devon, to an apartment in a period building in London's Westminster Cathedral conservation area

**Fieldways, The Drift, Chard, Somerset.** A late 19th-century property with stone and rendered elevations surrounded by open countryside. It has high, moulded ceilings, period fireplaces with wood-burning stoves and a triple-aspect sitting room with French doors opening onto the garden. The gardens include a separate kitchen garden with raised beds, a substantial polytunnel, two greenhouses and a former beach hut. 5 beds, 2 baths, 3 receps, kitchen, breakfast room, 1.6 acres. £795,000+ GTH 01460-238382.

**The Old School, Wylye, Wiltshire.** A converted Victorian school in the village conservation area. The top floor retains its exposed carved beams and vaulted ceiling, and it has wood floors and a large kitchen with an Aga. 3 beds, 2 baths, 2 receps, study, mature garden. £725,000 Winkworth 01722-443000.

**Tithe Farm Cottage, Wraysbury, Staines-upon-Thames, Surrey.** A Grade II-listed, 16th-century property overlooking open countryside. It retains its exposed wall and ceiling timbers, leaded-light windows, wood floors and inglenook fireplaces with wood-burning stoves. A stable door in the kitchen opens onto the landscaped gardens, which include a decked terrace and a vegetable garden. 4 beds, 2 baths, 2 receps. £795,000 Hamptons 01753-415265.

**Carlisle Place, Westminster, SW1P.** A double-bedroom apartment in a centrally located period building within the Westminster Cathedral conservation area, within walking distance of Belgravia and Chelsea. It is in excellent condition and has high ceilings, sash windows, solid oak hardwood floors, a period fireplace and a Lutron lighting system. Bed, bath, recep, kitchen. £745,000 John D Wood & Co 0203-151 0664.

**Fenwick Towers Farmhouse, Fenwick, Matfen, Northumberland.** A renovated, extended Grade II-listed farmhouse that incorporates the remains of a 12th-century tower. The house has sash windows with shutters, period fireplaces with wood-burning stoves and a large dining kitchen with bespoke cabinetry and an Aga. 4 beds, 2 baths, 2 receps, 2 outbuildings, stable block, formal gardens, vegetable garden, paddocks, 2.6 acres. £850,000 Finest Properties 01434-622234.

# Mercedes' accomplished electro-cruiser

The German luxury carmaker's hybrid model is impressive and a bargain to boot. Jasper Spires reports

Plug-in hybrid vehicles (PHEVs) – electric cars with fossil-fuelled back-up – are not everyone's cup of tea. They make it possible to save on fuel costs, "but only if your driving habits fit a very specific pattern of behaviour", says Richard Lane in Autocar. However, the technology "is coming of age" with the new Mercedes C300e. Its 201bhp, 2.0-litre, turbocharged petrol engine is combined with a 127bhp electric motor fed by a 25.4kWh battery. The battery charges at a rate of 55kW, meaning a 100% charge should take around an hour and a half. And the electric motor has a range of 62 miles, double that of the outgoing version, and significantly more than the rival BMW 330e, which manages only 37 miles. The C300e is, then, a PHEV that's ideal for everyday uses, but also for longer journeys. "With its digitised cockpit, sweeping design and plush upholstery, the latest C-Class really wants to be an S-Class impersonator at half the price." It does a very good impression, too.

The impressive tech is all wrapped up in Mercedes plush hardware, says Steve Fowler in Auto Express. The material quality is top class, the design cohesive, and the cabin dominated by an 11.9-inch central touchscreen. With older PHEVs, "the salesman was never keen to let you see inside the boot or rear passenger compartment for fear you'd spot how much space had been robbed to fit in the battery cells", says electrifying.com. But the Mercedes has solved that problem too, and the driving experience "hardly differs from a pure electric car", switching from the battery to the engine gently and quietly. The good news for drivers of company cars, which are taxed at different levels according to carbon emissions, is that the electric-only miles a car can drive are also considered – the rival BMW 330e will incur benefit-in-kind charges of 11%, while the levy for the C300e is just 7%.

So are PHEVs really an alternative to your favourite diesel-powered cruisers? The answer is "an emphatic 'yes'", says Alan Taylor-Jones in Car magazine. And the charming and accomplished C300s is the one to go for.
*Price: £45,000*

## Wine of the week: a simply perfect tawny port

**2007 Quinta do Noval, Colheita, Tawny Port, Portugal**

*£49.99, ocado.com*

**Matthew Jukes**
Wine columnist

I have been struggling to find retailers for this wine, and it is a source of complete bafflement and exasperation for me because this is, without doubt, the most sensational tawny port I have ever tasted. I first sampled it on 8 April, and I still remember every single facet of its excellence. It ought to feature on every serious wine list in the country, but, as I file this copy, Ocado, while listing the 2005 vintage, has taken delivery of the 2007 vintage, and its wine buyer assures me that it will be updated on its website imminently.

The first word I wrote about this vintage tawny in my notes was "paradise". There have only been seven Colheita releases in the 28 years that Christian Seely has overseen the historic Quinta do Noval estate. The single-vineyard, single-harvest wine, bottled after spending 13 years in barrel, is one of the most profound and moving wines of any style I can remember. It is drinking perfectly right now, with just the right amount of venerable, aged characteristics balanced by masses of admirable vigour and boundless energy.

But although my featured port is an absolute stormer, there was no Quinta do Noval Nacional declared in this vintage, so I wonder if we might see a 2007 Colheita Nacional appear on the market one day. If we do, I would feel compelled to give it a 21/20 score on the assumption that it might be a finer wine than this one, to which I have awarded my highest ever score for a tawny port – a perfect 20/20.

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

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# All hail the planet's first trillionaire

Elon Musk is streaking ahead of Jeff Bezos in the space race and the billionaire stakes

Tesla's founder Elon Musk has "not lost his penchant for hype", says Antony Currie on Breakingviews. He claimed earlier this month that his $855bn electric-carmaker can keep growing production by at least 50% a year for some time and that its Model Y SUV will be the world's best-selling vehicle by 2023. Investors could be forgiven for taking that with a large pinch of salt – Musk "has a history of missing targets". But recent performance suggests he may now "deserve to be taken more seriously". Tesla turned in record results this quarter, earning $1.6bn as car sales hit $13.8bn. Musk now looms large in the rear-view mirror of global carmakers, selling 20% more cars globally in the three months to June even as General Motors sold a third fewer in the US.

*Musk: it's time to take him seriously*

©Getty Images

> *"Musk is already the world's richest man, with a net worth of $252bn. Bezos is in second place with $193bn"*

## The smartest man in the room

Meanwhile, in the space race, Musk is already way out in front, says Clive Irving in The Daily Beast. If "massive amounts of money" were all it took to succeed in the race to put a man on the moon again – the starting gun was fired by Donald Trump in 2019 – then Amazon's chief Jeff Bezos's Blue Origin would easily "have prevailed long before now". He "amassed his many billions long before Musk" and had already laid out plans for Blue Origin when Musk was still struggling to get Tesla on the road. But Bezos underestimated the technical challenges. And he underestimated Musk.

The success of Musk's SpaceX comes down in the end to the difference between the two men, reckons Irving. Blue Origin is a "toxic and bureaucratically crippled workplace", at least according to reports from disgruntled employees. SpaceX is more like a Silicon Valley start-up driven by a "charismatic leader" with a strong work ethic and "visionary zeal". Where Bezos's firm was undisciplined with cash and "kind of lazy", SpaceX placed a "relentless focus on minimising costs" and getting the best out of its employees. And where Blue Origin's engineers were overcautious, Musk revelled in taking risks, testing to breaking point and learning in the process. He even puts his most explosive failures up on YouTube for us all to enjoy. As a result, Musk's space programme is "gaining so much momentum that it's difficult to see how Bezos can ever catch up".

Indeed, SpaceX is "challenging any preconceived notion of what was possible and the time frame possible in terms of rockets, launch vehicles and supporting infrastructure", says Morgan Stanley's Adam Jonas, who sees the company hitting a $200bn valuation. That would put Musk on track to becoming the planet's first trillionaire. He is already the world's richest man, according to the Bloomberg Billionaires index, with a net worth of $252bn. Bezos is in second place with $193bn (Musk tweeted him an emoji of a silver medal). Warren Buffett languishes at number ten with a mere $105bn.

It's cool to hate Musk and all he stands for, but as Douglas Coupland has pointed out in The Observer, there's no denying he's "the smartest person in any room anywhere". He's already reinvented money, cars and space travel. And he's only just turned 50.

Quintus Slide

## Tabloid money… "it's all about the money, money, money"

**● Musician Travis Barker's extravagant proposal to reality star Kourtney Kardashian (pictured) looked "gobsmackingly stunning", says Ulrika Jonsson in The Sun, but "also so utterly manipulated, staged and bordering on phoney". There was a giant circle of red roses and carefully curated lanterns hosting giant candles (each of which must have cost more than Kris Jenner's monthly manicure bill), on a sunset beach in Montecito, California. Family were waiting in the wings, phones at the ready, like a rent-a-crowd. Professional photographers and videographers were primed and ready to go, while the bride-to-be was dressed up to the nines. Whatever happened to surprise and humility? In the words of British singer Jessie J, it's all about the money, money, money. "And to me, it's nothing short of vulgar."**

● The Premier League's hysteria over Newcastle's takeover by Saudi Arabia is hypocritical, says Martin Samuel in the Daily Mail. Nobody had a problem when Prince Abdullah bin Mosaad bin Abdulaziz Al Saud bought Sheffield United. While not exactly short of money, the prince isn't at the top table when it comes to wealth in the Gulf. "Potless Saudis, they can handle." And Manchester United signed a strategic partnership with Saudi Arabia's government-backed General Sports Authority in 2017. They can profit, but not Newcastle, who are owned by the Public Investment Fund of Saudi Arabia, a proper investment group with interests in General Electric, Lockheed Martin and others. Now 19 clubs in a 20-club league are discussing how to place limitations on the excluded one. "That's running a cartel."

● When the Tories were campaigning for our votes a couple of years ago, I don't recall them saying they would plunge the nation into around £1trn worth of debt over the next few decades, says Nick Ferrari in the Daily Express. But now, the party's "eco-obsession" has taken over. They boast about the billions of pounds that will be splurged on electric-vehicle charging points, home insulation and on nuclear power. Millions will be lavished on cycle lanes, tree planting and restoring peatland. It all seems a far cry from the promises on control of immigration, more hospitals and more police officers. Of course, Red Wall voters want a "greener" planet to pass on to future generations. But if those same generations are drowning in debt they will never be able to repay, what is the point?

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## Bridge by Andrew Robson

# Duck or no dinner

If a good declarer plays (to) a King early in the play, declarer wants you as the defender to take your Ace. It follows that you should probably duck.

Dealer West | East-West vulnerable

North:
♠ AKJ4
♥ AQ4
♦ 8
♣ J9653

West:
♠ 3
♥ 9873
♦ AKQ542
♣ A2

East:
♠ Q10862
♥ J6
♦ J96
♣ 1074

South:
♠ 975
♥ K1052
♦ 1073
♣ KQ8

**The bidding**

| South | West | North | East |
|---|---|---|---|
| | 1♦ | Double | pass |
| 2♥* | 3♦ | 4♥ | pass |
| pass | pass | | |

* Barely worth the jump, but at least all the eight high-card points rate to be working.

West led the Ace of Diamonds and sensibly began a forcing defence (holding as he did four trumps), continuing with a second Diamond. Ruffing in dummy, declarer led a Club to the King. And West?

At the table West won the Ace and led a third Diamond, continuing his plan of reducing the trump length of the enemy. No good. Declarer ruffed in dummy (with the Queen), cashed the Ace, crossed to the Queen of Clubs, cashed the King of trumps (felling East's Knave), followed with the ten, then, leaving West's nine outstanding, led over to dummy's Clubs. All West could score was his trump – ten tricks and game made.

Consider the principle of ducking when declarer leads early to a King. If West withholds his Ace of Clubs, there is no way for declarer to succeed. The best declarer can do is follow with a second Club (Queen or low). West wins, but, almost unbelievably, can play any one of his nine remaining cards and still prevail. Say West leads a third Diamond. Declarer ruffs in dummy (with the Queen), cashes the Ace of trumps, then leads a third Club. West ruffs and leads a fourth Diamond, East ruffing with the Knave to promote a further trump trick for West. One down.

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

# Sudoku 1075

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

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.

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

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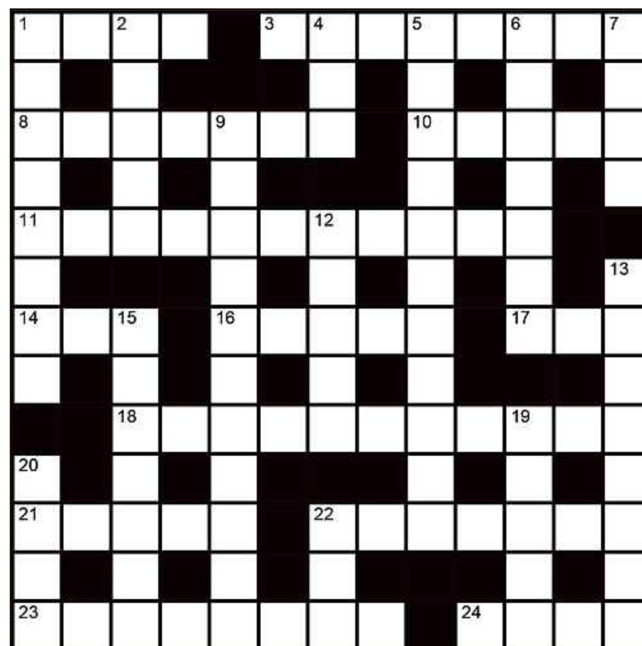
## Tim Moorey's Quick Crossword No.1075

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 8 November 2021. Answers to MoneyWeek's Quick Crossword No. 1075, 31-32 Alfred Place, London, WC1E 7DP.



**Across clues are mildly cryptic while down clues are straight**

**ACROSS**

**1** Reversible raincoat's a swindle (4)
**3** Building propositions? (8)
**8** Red-faced graduate in a cast (7)
**10** Make a mug of TV chef Rick (5)
**11** Seasonal visitor's name heard in Californian city (5, 6)
**14** Pick used in work on teeth initially (3)
**16** Killer whales Oscar shot (5)
**17** Two of the French foremost in Orleans (3)
**18** What top chefs cooked from meat recipes (11)
**21** Ring Nag's Head in locality (5)
**22** Small Chinese breed in what sounds like a poor menagerie?! (4-3)
**23** Ultimately need hint for a change (2, 3, 3)
**24** Virginia and two other US states (4)

**DOWN**

**1** Informal photo (8)
**2** Once more (5)
**4** American's pistol (3)
**5** State and river in US (11)
**6** Ship's officer in charge of provisions (7)
**7** French novelist, George (4)
**9** The Queen for one (4, 2, 5)
**12** Just at the right moment (2, 3)
**13** Certainly (2, 2, 4)
**15** Severe storm (7)
**19** More (5)
**20** Island of Indonesia (4)
**22** Transgression (3)

**Name** ....................

**Address** ....................

### Solutions to 1073

**Across** **1** Sumac *reversal* **4** Modicum *DI Cu inside mom* **8** Towards *to wards* **9** Inner *(w)inner* **10** Ear *hidden* **11** Amass *a m+ ass* **12** Out *two definitions* **13** Essen *(l)essen* **15** North *two definitions* **18** Spa *two definitions* **19** Aloud *homophone allowed* **20** Sun *reversal NUS* **21** Atlas *at las(t)* **22** Shadows *two definitions* **23** Set free *set + free* **24** Skein *s k + ein.*

**Down** **1** So there **2** Mower **3** Curtain raiser **4** Mislay **5** Dribs and drabs **6** Candour **7** Merit **14** Shallot **16** Hands-on **17** Mousse **18** Scams **20** Spoke.

The winner of MoneyWeek Quick Crossword No.1073 is: John Coombes of Dibden

*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 fall of the US empire

Pull up a seat for a once-in-a-100-year spectacle!

**Bill Bonner**
Columnist

*Don't worry, we've got our best man on the case*

©Getty Images

What a marvellous time to be alive – with a front-row seat to watch a great empire stumble and fall! It only happens once every 100 years or so, so pull up a chair and enjoy the show! Production at US factories fell by the most in seven months in September, reports Bloomberg, partly as a result of "backlogged supply chains and materials shortages". Supply chains? What's happening is much more than just a weak link. Adjusted for inflation, industrial production has been going down for half a century and is only a third of 1968 levels.

The US enjoyed a fake prosperity for the last 30 years – but only because China picked up the burden of manufacturing and sold goods to Americans at discount prices, keeping inflation in check. Now, the US no longer has the good jobs, the infrastructure, or the know-how to make things Americans want. Instead, appliances and geegaws are shipped across the Pacific Ocean – at enormous cost – while the discounts disappear. China's raw materials costs are going up. So are its wages. It can no longer offset US money-printing with cheap products.

> *"Real industrial production has been in decline for half a century"*

In the US, inflation is now out in the open, and the whole scam is coming apart. "A perfect storm of high demand and low supply is sending fuel prices through the roof," says CBS News. "Driving your car is costing a lot more – and heating your home this winter could, too." But don't worry. Joe Biden is on the case. The president turned his focus to supply-chains recently, reports Bloomberg – announcing a deal with the Port of Los Angeles that would see it open 24/7 in an effort to get things moving. But is Biden really doing Americans a service by making it easier for them to buy Chinese products? Both the Trump and Biden administrations shared the same Covid-19-fighting strategy – close up US businesses, but give Americans money so they can shop for goods made in China. In September, the US bought $635bn of Chinese goods, equal to 27% of US manufacturing GDP.

As we've been saying, the whole thing is a "fraudfest". From the most basic premises of common sense, it's obvious that the whole fake money economy is a "bezzle". From start to finish. Dishonest. Corrupt. Incompetent. You can't "print" prosperity. You can't make an economy work with five-year plans. And "democracy" does not mean that the majority always gets what it wants. It gets whatever bone the elites toss its way.

But while tossing out scraps was easy when the economy was growing, of late it's become much more difficult. The US squandered trillions on its misbegotten wars and social programmes. Now, it's got a $3trn deficit – even without a recession. Republicans and Democrats are currently negotiating the next trillion-dollar-plus programmes… while the printing presses run hot to pay for them.

## The bottom line

**£78.54** The average size of withdrawals from cash machines, up from £66.99 before the pandemic, according to cash machine network Link. However, Britons are using the outlets 40% less often and, over an average month, are taking out £44 less than in 2019.

**$57bn** The value of the gold, silver, copper and palladium that is discarded inside old mobile phones and laptops every year, according to a conservative estimate from the Royal Mint. The Mint has teamed up with Canadian company Excir to recover these metals.

**£1,090** The amount that Prime Minister Boris Johnson has declined to pay to keep a bike, designed in Union Jack colours by the US State Department, and given to him at the G7 meeting in Cornwall this year, says The Times. Ministers have to pay for gifts valued at over £140.

**£146.2m** The combined value of cryptocurrency that was stolen from Britons by criminals in the first nine months of 2021 – a 30% increase on the whole of last year, according to police body Action Fraud. Victims lost on average £20,500 each.

**€100** How much per person the French government is to pay the 38 million of its citizens who receive less than €2,000 in net income a month, from late December. The one-off "inflation allowance" is to help counter the effect of surging fuel and energy prices on people's wallets.

©Getty Images

**£1.2m** The prize money British tennis player Cameron Norrie (pictured) picked up last week for winning the BNP Paribas Open in Indian Wells, California. Norrie came from a set down to beat Georgia's Nikoloz Basilashvili, and in doing so rose to 15th in the world rankings.

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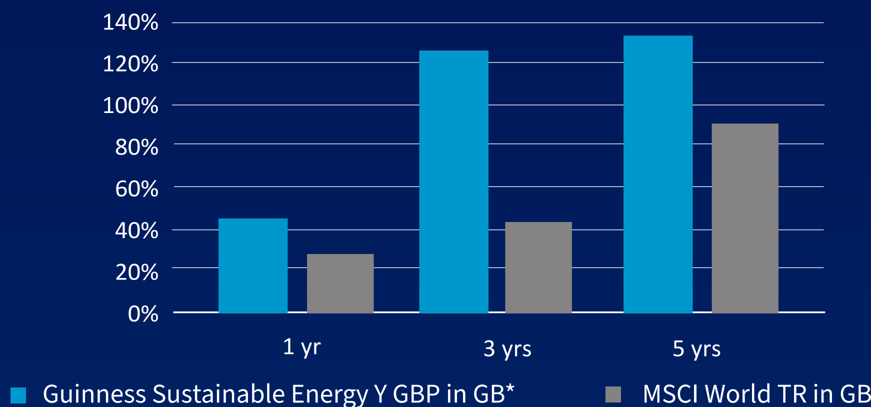


| | Sep' 21 | Sep' 20 | Sep'19 | Sep' 18 | Sep' 17 |
|---|---|---|---|---|---|
| Fund | 43.4% | 42.6% | 11.0% | -1.4% | 4.9% |
| Index | 23.5% | 5.2% | 7.8% | 14.4% | 14.4% |

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