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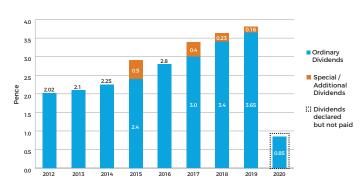
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Note: The dividend for the period to 31 May 2012 covered 13 months, and the annualised dividend was 2.02p. Therefore, the underlying growth of the dividend in the year to 31 May 2013 was 4%. Only the four interim dividends at 31 May 2015 have been included for comparative purposes. The final dividend that was paid that year was excluded because it was merely the first interim dividend for the fourthcoming year that was redesignated.

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Why Tesla, Blue Prism and Beyond Meat shares are soaring

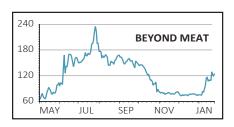
All three stocks are experiencing a re-rating after evidence of good progress

t's quite common to see share prices follow a certain pattern, particularly if they are prime ways to play hot themes. Their shares can soar on the hype and subsequently fall back as investors take profit and pay more attention to valuation. Occasionally you then see the shares start to move up again as the market makes a positive reappraisal.

Beyond Meat is a great example, shooting up last year on its stock market debut, then crashing back down, only for it to start rising again. This year alone its share price has appreciated by 58%.

Investors have taken another look at the

company and welcomed news that it is rolling out products for **Dunkin Donuts** and McDonald's, as well as signing



a multi-year pea protein supply deal with Roquette and eyeing up expansion across Europe and China.

Displaying a slightly different share price pattern but still going through a market reappraisal is electric car maker Tesla. Its stock has increased by 71% in value in less than two months thanks to improving production volumes, delivering its first China-made cars, and – perhaps most importantly – signs that profits are not that far away.

The company had a lot of cynics but ticking off a series of milestones and providing proof that the business is going places has served to win more supporters.

It is hard to know exactly when a company is going to reach the magic turning point, but Tesla's recent share

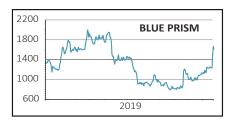


price performance just shows you how powerful that re-rating can be when there is enough evidence to put the company in a better light.

Robotic process automation software group Blue Prism (PRSM:AIM) has just done the same thing. After seeing its share price soar between 2016 and 2018, the stock then fell by two thirds in value up to late last year amid concerns about a slowdown in the pace of growth.

A trading update in November and then full-year results this January made the market take another look. Importantly, plenty of existing customers are

being persuaded to take more products. Blue Prism's stock has soared by 75% in value since mid-December 2019. which is incredible.



For Tesla, its shares are now trading at record highs and at \$101bn the business is worth more than Volkswagen (\$96bn), despite the latter owning such big car brands as Audi, Porsche and VW.

That brings us to the moot point, namely valuation. At what point is the market overpaying for such companies? The market certainly seems happy to pay top dollar now, but at some point reality will kick in and the stocks will be rated as 'normal' operating businesses rather than pricing them on future earnings potential.

Just as you might be looking for the turning point when stocks re-rate, keep looking for that de-rating moment when they are more mature businesses.



By Daniel Coatsworth Editor

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IMPORTANT

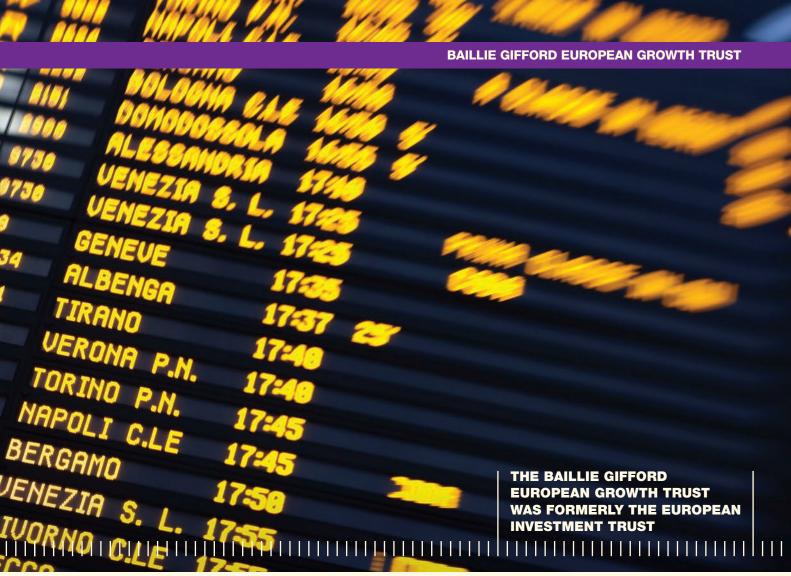
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How the coronavirus might impact your investments

We discuss the ongoing impact on markets from China's deadly outbreak

fter a promising start to 2020, the markets are reeling from the outbreak of the Chinese coronavirus and the impact the deadly virus could have on the global economy.

As we write the FTSE 100 is trading at its lowest levels since mid-December as investors look for clarity on just how serious the outbreak could get and when and how it will be contained.

WHAT HAS HAPPENED?

Around the turn of the year news emerged from China of several cases of pneumonia in the port city of Wuhan, centred on its seafood market. By 7 January health officials had identified a new virus and on 11 January the country announced its first death. By 13 January the World Health Organisation reported the first case outside China.

The death toll has subsequently risen above 100 and Chinese authorities have imposed travel restrictions in an attempt to contain the outbreak.

HOW AND WHY IS IT AFFECTING MARKETS?

Since human-to-human transmission of the virus

GLOBAL MARKETS STRICKEN BY CORONAVIRUS

Market	Performance since close on 17 January 2020
CAC 40 (France)	-3.8%
Hang Seng (Hong Kong)*	-3.8%
FTSE 100 (UK)	-3.2%
SSE Composite (Shanghai)*	-3.2%
Nikkei 225 (Japan)	-2.9%
S&P 500 (US)	-2.6%
DAX (Germany)	-2.5%

Data to 28 Jan 2020. *Closed since 24 January. Source: SharePad



was confirmed global equities have tumbled, with falls for major indices ranging from 2% to 4%.

The Australian dollar has suffered given the proximity of the country to the crisis and the impact on tourism so soon after the devastating bush fires in December and January. Oil prices are also under pressure, hitting a three-month low.

Shutting down transport and imposing quarantine conditions will inevitably have an impact on economic activity domestically in China and will likely to impact on trade with the rest of the world. A downgrade to Chinese first quarter GDP looks inevitable and curtailed movement of people and diminished trade could hit global oil demand.

WHAT CAN WE LEARN FROM PREVIOUS OUTBREAKS?

Given it also originated in China the SARS epidemic of the early noughties provides a useful point of comparison.

Canaccord Genuity Wealth Management chief investment officer Michael Perera says: 'SARS – responsible for 800 deaths – lasted for two quarters and clipped Chinese economic growth by 2%. At the time that was from 11.5% to 9.5%, but with growth today in the 6% range, a 2% haircut would be damaging to world growth.'

In the first quarter of 2003 when the SARS outbreak was at its height, Hong Kong's Hang Seng index fell 7.5%, although it rebounded quickly once the number of cases peaked.

An attempt back then by Chinese authorities to cover up the scale of SARS contributed to market panic but there appears to be greater transparency and more rapid action this time round.

There have been suggestions the coronavirus is contagious in the incubation period when no symptoms are displayed which could make it more difficult to contain then SARS or Ebola.

WHAT COULD HAPPEN NEXT AND HOW MIGHT EQUITIES RESPOND?

At the time of writing the World Health Organisation had yet to declare a public health emergency. If it were to do so then there would likely be a more pronounced market impact as investors could price in more widespread restrictions on global travel and trade.

So far the number of cases outside of China is relatively modest but a material increase could also escalate the sell-off in equities. On 28 January the first case of human-to-human transmission in Europe was recorded in Germany.

WHICH STOCKS AND SECTORS ARE EXPOSED TO THE CRISIS?

The UK stock market as a whole arguably has greater exposure to the crisis than some of its counterparts in developed economies, given the strong weighting towards resources stocks. China's heavy consumption of commodities means its fortunes are closely tied to this part of the market.

A look at the worst performing FTSE 100 stocks since close on 17 January is populated by several mining stocks, with tourism and travel-related firms

WORST FTSE 100 PERFORMERS ON CORONAVIRUS FEARS

Company	Performance since close on 17 January 2020
Burberry	-16.7%
Antofagasta	-16.1%
International Consolidated Airlines	-14.0%
Evraz	-13.3%
Carnival	-11.7%
InterContinental Hotels	-11.3%

Source: SharePad. Data to 28 Jan 2020.

like International Consolidated Airlines (IAG) and cruise operator Carnival (CCL) joining them in the firing line.

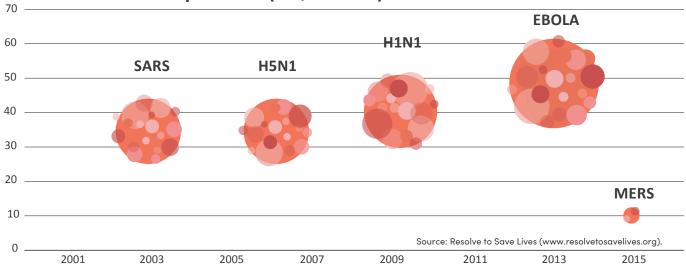
Luxury goods brand **Burberry (BRBY)** has also sold off as China is a very important market for the company specifically and the luxury market more widely.

Relevant investment trusts like **Fidelity China Special Situations (FCSS)**, down 10.3% to 225p over the same timeframe, have also come under pressure.

Healthcare stocks are a potential beneficiary of the outbreak. For example, Japanese surgical mask maker Kawamoto has soared as sales of masks have surged in cities across Asia.

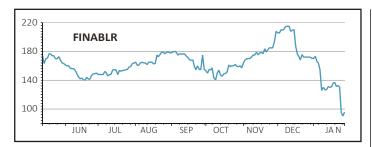
US-listed Inovio Pharmaceuticals and Novavax have announced plans to develop vaccines against the coronavirus which temporarily gave their respective share prices a lift, while Chinese health-related shares have also rallied.

Costs of selected epidemics (US\$ billions)



The story behind the share price collapse at Finablr

Using shares as security against a loan is a dangerous and expensive form of leverage



hares in global payments platform Finablr (FIN) plunged nearly 30% on 24 January and remain under the cosh at 94p.

This is after the company announced that its majority owner and founder, UAE-based billionaire B.R. Shetty, had pledged 392.2m stocks, roughly 56% of the company's shares, for security against borrowings raised by BRS Ventures & Holdings. The debt was used in the acquisition of a majority stake in Travelex five years ago.

Pledging shares involves transferring the right of ownership to another party as security against a loan.

In response to the share price drop Finablr said that it had sought clarifications from the investment vehicle owned by Shetty, and had been 'reassured by the level of security represented and the talks it has had with its banking group about repayment or refinancing of the debt'.

Finablr floated on the London Stock Exchange in May 2019 and the shares have since lost nearly half their value.

TRAVELEX GOES OFFLINE

On New Year's Eve Travelex reported that it had suffered a cyber-attack which compromised some of its online services. As a precautionary measure the firm went offline while it fixed the issue. There wasn't a breach of customer data according to the company.

While the incident isn't expected to have a 'material impact', it's possible that business



momentum has been hit by the move to manual systems.

SAME TRICK, DIFFERENT PONY

Billionaire Shetty is also founder and largest shareholder in UAE-based NMC Health (NMC) which crashed 27% on 17 December as short seller Muddy Waters accused the company of overstating its asset values and reported debt levels.

In a surprising turn of events, shortly after a strong rebuttal by management, two of NMC's largest shareholders, Saeed Mohamed Al Qebaisi and Khalifa Butti Al Muhairi, sold a combined £430m shares in NMC in order to satisfy borrowings against the value of pledged shares.

As part of that transaction \$75m of Finablr's shares were also sold to satisfy the indebtedness, showing that pledging shares represents 'business as normal' at both companies.

LEVERAGE WORKS IN REVERSE TOO

The problem with using shares as collateral for a loan is that shares can be very volatile which in turn means that the pledger is constantly at risk of 'margin calls' to top up collateral values.

In a worst case scenario, the lending bank will take action to protect its position by selling the shares and wiping out the value of the borrower's equity position.

Cabot Square Alternatives eyes £200m IPO

The infrastructure and property trust is set to list in London

nvestors will soon have a new way of accessing returns from the alternatives sector as innovative new addition to the investment trust sector prepares to list on London's Main Market on 18 February.

Cabot Square Alternatives, which will trade under the ticker 'ALTS', is looking to raise £200m for investment not only in a portfolio of infrastructure, property alternative assets and specialist debt, but also in specialist alternative asset managers that run such projects as well.

The trust has received commitments of around £40m from three cornerstone investors, helping to underpin the proposition.

It comes to market targeting a 5% annual dividend yield and a net asset value total return of between 8% and 10% a year over the long term.

The aim will be to facilitate access to returns from direct investments in alternative assets, which offer diversification away from traditional equities and bonds, as well as sharing in the potential value creation of between four and six alternative asset managers themselves.

Direct investments are expected to be made in

renewable energy and property alternative assets ranging from affordable housing, healthcare and education properties to solar panel farms as well as specialist debt secured against infrastructure and property assets.

The trust's investment manager Cabot Square Capital has identified a pipeline of £500m of opportunities 'with potential to scale to £1bn plus'.

Fund manager Keith Maddin tells Shares that targeting investments in infrastructure and property, rather than just a single asset type, will give the fund the flexibility to invest in the most attractive opportunities over time.

Maddin notes there is a shortage of capital and expertise in the market for infrastructure and property investments valued at between £1m and £25m. This is regarded as a sweet spot, where Cabot sees 'attractive risk adjusted returns for those willing to and able to invest in this range'.

Significantly, the trust plans to report on ESG as well as financial results, a move which will chime with increasing investor concerns over climate change and sustainability.

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS					
STOCK	SHARE PRICE RISE	REASON			
Renishaw	13.6%	Morgan Stanley turns bullish amid expectations of rising demand			
AG Barr	9.6%	Profit guided towards the top end of expectations			
Paragon Banking	5.0%	Positive broker commentary			

WORST PERFORMERS						
STOCK SHARE PRICE FALL		REASON				
Finablr	-28.9%	Majority owner pledges half of their stock as security against debt from buying Travelex				
KAZ Minerals	-14.3%	Hit by wider sector weakness and broker downgrade				
Burberry -9.9%		Fears over impact of Chinese coronavirus				

Source: Shares, SharePad. Data to 28 Jan 2020



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J.P.Morgan
Asset Management

Buy this stock to profit from the UK infrastructure boom

Service group Renew is well placed to capitalise on the expected rise in infrastructure spending

nyone who regularly experiences the joys of public transport in the UK will know the country is in desperate need of infrastructure investment. Recognised as a priority by the Government, this is one area of public spending seemingly set to get a boost, not a cut, in the upcoming Budget.

That spells good news potentially for both long-suffering passengers and the likes of **Renew (RNWH:AIM)**, an engineer providing infrastructure maintenance work.

What separates Renew from most other engineering firms is that it specialises in non-discretionary maintenance and renewal projects, i.e. work that's essential, not optional.

Its clients – which include Network Rail, the Nuclear Decommissioning Authority and big utilities – must spend money on infrastructure to comply with laws and regulations.

While this provides a positive backdrop for Renew, it still needs to win this work in the first place as providing infrastructure services is still a competitive market.

Fortunately the firm seems to have done a good job of securing work as its latest full year results show 11% growth in revenue

RENEW HOLDINGS BUY

(RNWH:AIM) 510p Stop loss: 408p

Market value: £391m



to £600.6m, adjusted operating profit up 23% to £38.3m and reported pre-tax profit almost doubling to £27m. There was also a 15% rise in its final dividend to 11.15p per share.

The nature of jobs Renew carries out – in rail, water, telecoms and nuclear decommissioning – involves stringent safety checks in heavily regulated markets.

Subcontracting work is highly common in the construction industry due to the scale of the jobs firms take on but Renew targets lots of lower scale work, so it uses its own staff for its jobs and doesn't have to outsource, leading to better margins than its peers.

Its share price has been on

a roll recently, soaring 25% to the current 510p level since its full year results in November, perhaps showing the market better understands the company's risk profile.

But the company is still good value, trading on 12.2 times forecast earnings for the current financial year, placing it bang in the middle of its sector when it comes to expectations.

It's worth highlighting companies in Renew's industry are cyclical, and while it's proving itself better than peers when delivering on contracts and pricing them correctly, failure in this regard is still an everpresent risk.

The company also took on debt significantly in 2018 having bought rival businesses as it looked to expand. But net debt of £10.2m as at 30 September 2019 compared to £21.4m the previous year shows that Renew places a good focus on keeping its balance sheet in check.



The European fund offering growth, quality and consistency

Henderson EuroTrust can be bought for less than the value of its assets and its track record is excellent

e think a 7.5% discount to net asset value (NAV) on Henderson EuroTrust (HNE) offers an attractive entry point for investors seeking exposure to some of the highest qualities companies in continental Europe. This market remains largely out of favour, yet offers significant re-rating opportunities.

After 25 years under the stewardship of Tim Stevenson, Henderson EuroTrust is now managed by Jamie Ross. Shares believes that if Ross can sustain his strong start, there is scope for the valuation discount on the trust to narrow significantly.

Henderson EuroTrust's objective is to achieve a superior total return from a portfolio of high quality European investments (excluding the UK). The investment approach is encapsulated in the tagline 'seeking growth, quality and consistency'.

Ross took over as sole manager in February 2019 and under his guidance the trust, which has outperformed the benchmark in nine of the last 10 financial years, has continued to beat the FTSE World Europe ex-UK index.

One of Winterflood Investment Trust's 2020 picks,

HENDERSON EUROTRUST BUY

(HNE) £12.08 Stop loss: 966p

Market value: £261m

Henderson EuroTrust targets companies it classifies as either 'compounders', namely reliable and consistent high return businesses, or 'improvers'.

Ross selects stocks based on in-depth fundamental analysis rather than sector or macro calls and prefers to run a more concentrated portfolio than his predecessor.

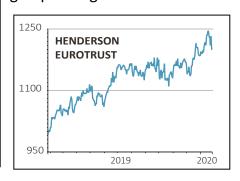
He scours the market for large and medium-sized firms with strong market positions and balance sheets, generating high returns on capital and consistent growth, and which are run by high quality management. They must also be perceived by the fund manager to be undervalued relative to their growth prospects.

Such companies tend to have pricing power stemming from strong brands and operate in industries where there are only one or two competitors. We also like the fact that Ross has a growing focus on integrating

ESG analysis into his investment theses too.

As of 31 December 2019, leading holdings included the likes of Dutch pharmaceutical ingredients-to-specialty materials concern DSM, Danish pharma company Novo Nordisk, French media conglomerate Vivendi, software giant SAP and Swiss foods behemoth Nestle.

While the focus is more on growth and total returns than the dividend, income-hunters will also be delighted to note that the shareholder reward has been increased every year since 2005. Winterflood also points out the payout has been fully covered in all but two of the last 10 financial years, while Henderson EuroTrust's five year annualised dividend growth of 12.4% is higher than the peer group average of 11.1%.



COMPUTACENTER

(CCC) £17.98

Gain to date: 48.5%

Original entry point:

Buy at £12.10, 2 May 2019

THE PROSPECTS FOR FTSE 250 IT re-seller **Computacenter (CCC)** just get better and better, and this is being reflected in a big rally in the shares.



The US arm has turned a corner, Germany is strong and the UK is making margin progress.

Heading into the current year, structural tailwinds look set to persist with more organisations eyeing the cost efficiencies and service opportunities from adaption to the digital world, which is just where Computacenter's experience and expertise can help.

Its software re-sales are from proper blue-chip vendors, such as Microsoft, Oracle, Adobe, Cisco, Symantec and the UK's own **Sophos (SOPH)**.

Management are notoriously conservative when giving guidance which implies increasingly significant chances of the business doing better than expected through 2020 and beyond.

'We are now much more confident about the company's long-run growth outlook,' note analysts at investment bank Berenberg, who now see the share price rallying up to £21.50 in the next 12 months, versus the previous £15 target.

This is backed by what they regard as a material discount – Computacenter is valued at 13% below global peers and 22% below European rivals.



SHARES SAYS: 7

Prospects look bright and earnings could well beat 94.5p per share estimates for 2020. Still a buy.

LUCECO

(LUCE) 148p



Gain to date: 27.6%

Original entry point:

Buy at 116p, 19 December 2019

CONFIRMATION THAT ELECTRONICS components and LEDs firm **Luceco (LUCE)** has traded ahead of expectations during 2019 is a clear sign of the margin improvement potential we highlighted in our <u>original article</u>.

To recap, Telford-based Luceco supplies a large collection of electrical and wiring products to both retail and wholesale providers, covering industries such as commercial construction, residential housebuilding and housing maintenance.

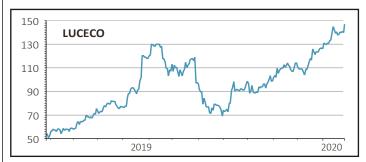
This week the company revealed that it will beat forecasts for 2019, on an adjusted operating profit basis, and anticipates doing so for 2020 too.

Expectations for 2019 were pitched at £17.3m versus the £17.5m to £18m the company will chalk-up. For 2020, Luceco expects £20.5m versus the £19.4m previous forecast.

We said in the original article that Luceco 'has the scope to repair profit margins from the high single digits of today to the mid-teens of the past'.

In 2018 operating profit margins were 5.2%. For 2020 Numis now anticipates 11.5%, versus the 10.8% previously forecast. Gross margins exited 2019 at 37%, compared to the 30.9% of 2018.

Stronger balance sheet and cash flow give Luceco the scope to hunt for value-adding acquisitions through the rest of 2020.



SHARES SAYS: 2

A great start to 2020, we see more progress through the rest of this year.

HOTEL CHOCOLAT

(HOTC:AIM) 430p

Gain to date: 1.5%

Original entry point:

Buy at 423.5p, 19 December 2019

THE LATEST UPDATE from premium chocolatier Hotel Chocolat (HOTC:AIM) was slightly mixed but we still remain positive on the company, which is one of our '10 winning stocks for 2020' selections.

On 23 January the company reported 11% revenue growth for the 13 weeks to 29 December, in line with management expectations. For the 26 weeks to the same date growth was 14%.

The fly in the ointment was inefficiencies in the supply chain which increased the cost of delivering this growth.

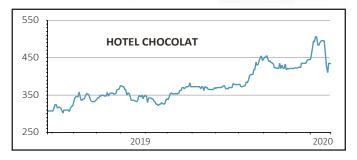
The company appears to be on top of these issues and in part they reflect the scale of the international opportunities the business is chasing. Overseas growth was a key reason behind our original 'buy' rating on the stock.

Liberum comments: 'The costs to drive this growth have been higher than expected, which will support an acceleration of the adaption of the supply chain from a UK-centric model to a global multi-channel one in 2020.

'This comes at a time when management is increasingly confident that the joint venture in

Japan and its business in the US are showing strong signs that growth could accelerate in the medium-term.'





SHARES SAYS: 7

We remain focused on the longer-term prize and believe the shares are still worth buying.

STHREE

(STEM) 365p

Gain to date: 25.9%

Original entry point:

Buy at 290p, 23 May 2019

SPECIALIST STAFFING BUSINESS SThree (STEM) delivered strong full-year results with net fee income up 5% to £342.4m and operating profit up 9% to £60m. Growth in net fees came in spite of a fall in permanent placings and a double-digit rise in 2018.

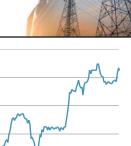
The technology hiring business, which generates 45% of net fees, grew by 7% with continued strong demand in continental Europe especially for higher-value contract staff.

Energy and engineering, the next-biggest business, saw positive growth in Europe but US fee growth was exceptionally strong at 38% and a strong finish to the year means there is good momentum moving into 2020.

The life sciences division also saw increased demand, including in the UK and Ireland, while the legacy banking and finance business – which now accounts for barely more than 10% of net fees – was the only area to show a decline.

Chief executive Mark Dorman was cautious for 2020 given that 'broader macro-economic and political uncertainties may well persist, and the trading environment remains similar to Q4',

but there is no doubt that the company's focus on the science, technology, engineering and mathematics (STEM) markets and higher-value contract staff is paying off.



SHARES SAYS: 7

STHREE

400

320

280

240

SThree is well positioned to benefit from STEM demand and we remain buyers.



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The value of your investments can go down as well as up and you may get back less than you originally invested.



Finding a safer home for your Woodford cash

Investors trapped in Woodford Equity Income Fund are about to get some of their money back

allen star fund manager Neil Woodford's one-time flagship fund **Woodford Equity Income** is now returning its depleted capital to investors.

The first payment of cash to investors is expected to be on or around 30 January, representing about 70% of the fund's current value.

If you feel royally let down by Woodford and want a better fund generating income, help is at hand. Rather than being lured in solely by the cult of a star manager, you should look for funds and trusts which have a clear and consistent strategy and a track record of long-term success. You might also want to consider spreading your money across a number of funds rather than just one collective.

With the Woodford cash now being returned, later in this article we shine a light on four high-quality equity income funds to consider buying.

WHAT WENT WRONG?

Historically Woodford came close to being sacked from Invesco Perpetual in 1999 as the dotcom bubble peaked, leaving his performance trailing. Yet when unprofitable tech stocks collapsed, it was his funds that soared as sanity returned to markets.



"Consider spreading your money across a number of funds rather than just one collective"

After setting up his own company, Woodford Investment Management, the fund manager ruled the roost and his decisions weren't challenged in the same way they were at Invesco.

Furthermore, Woodford began to pursue a more growth-focused approach, which involved picking smaller quoted companies as well as putting money to work with unquoted companies. That was a very different approach to the large cap focus which had previously been his focal point and where he had made his name as a stock picker.

By early 2019 nearly 20% of the Woodford Equity Income fund was in companies which were not listed on a recognised stock market. This led to a liquidity problem.

When performance suffered and Woodford faced an increasing number of redemptions he found these assets difficult to sell in order to return cash to shareholders and this ultimately led to the fund's suspension.

Investors have been waiting since June 2019 to access their money. The cash is now finally being paid back so it is time for these investors to find a better way of generating income from the markets. We now offer four fund suggestions.

FOUR WAYS TO REINVEST YOUR WOODFORD CASH

CAUTIOUS PICK:

Franklin UK Rising Dividends (B5MJ560). Yield: 3.4%



Investors scarred by the Woodford debacle and seeking to recycle proceeds into a cautious equity income vehicle might like **Franklin UK Rising Dividends**. Managed by large cap equities specialists Colin Morton and Ben Russon, the fund aims to provide a growing level of income together with capital growth to achieve a total return that exceeds that of the FTSE All-Share.

According to Trustnet, it has outperformed the IA UK

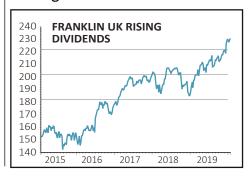
All Companies sector on a cumulative return basis over one, three and five-year periods. As at 31 December 2019, the top 10 included oil major Royal Dutch Shell (RDSB), drinks giant Diageo (DGE) and packaged consumer goods firm Unilever (ULVR).

Optimistic about potential rising dividend opportunities among UK-listed firms, Morton's experience tells him that a strong track record of dividend growth can offer clues to the long-term performance potential of a company.

Morton looks for dividend growers that are leaders in their respective industries or niches, have attractive secular growth opportunities and whose management teams have demonstrated sound capital allocation decisions.

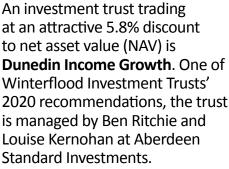
He appears to be sticking with the tobacco sector as evidenced by the presence of **British American Tobacco (BATS)** and **Imperial Brands (IMB)** among the top holdings.

Prospective investors are also getting exposure to drugs giants **GlaxoSmithKline** (**GSK**) and **AstraZeneca** (**AZN**) and publishing play **RELX** (**REL**), among others.



HIGHER RISK PICK:

Dunedin Income Growth (DIG) 301p. Yield: 4.1%

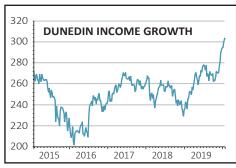


Their philosophy is that fundamentals drive share prices, but are often priced inefficiently and in-depth research can be used to exploit mispricing. Over the last three years the trust has been repositioned, shifting away from higher yielding stocks towards small and medium-sized companies that can grow their dividends.

Winterflood flags a marked pick-up in relative performance over the past year, with the trust being the second best performer in its peer group over the last 12 months in NAV terms. Income seekers will welcome the fact **Dunedin Income Growth has** increased its dividend in 35 of the last 39 financial years. It maintained the payout in the other four instances. Despite the shift to lower yielding shares, Winterflood also notes that earnings covered the dividend in the most recent financial year. Analysis of the top 20 holdings as at 31 December reveals stakes in



large caps such as utility National Grid (NG.), insurers Prudential (PRU) and Chesnara (CSN), and holdings in companies as diverse as chemicals firm Croda (CRDA), housebuilder Countryside Properties (CSP) and computeraided design software play AVEVA (AVV).



YOUR GLOBAL INCOME OPTION:

Henderson International Income Trust (HINT) 173p. Yield: 3.3%

If you are looking to diversify sources of income away from a UK market that suffers a high degree of dividend concentration, you should go global in your quest for payouts. Launched in 2011 with the aim of meeting this need, we think the Ben Lofthouse-managed **Henderson International Income** Trust fits the bill nicely.

This fund is the only global equity income investment trust that specifically excludes the UK market, one to which many investors will already boast sufficient exposure. Research

group Edison points out since launch, the trust has traded at an average premium to NAV of 0.8%, which reflects its unique mandate and investors' appetite for income.

Henderson International Income Trust's board regularly issues shares to sate demand for the strategy. Investors have enjoyed total returns of around 9% a year over the past five years and a progressive shareholder reward, supported by wellcovered dividends that have grown at a compound annual rate of 5.2% since launch in 2011.

Value-oriented manager Lofthouse looks for cash-



generative companies with secure and growing dividends.

He blends higher-yielding holdings with those that are lower yield but which enjoy with superior dividend growth prospects. Reassuringly, the trust's own dividends are fully covered by income.

As at 31 December 2019, the top 10 included Microsoft, Nestle, Novartis and Coca-Cola, plus Taiwan Semiconductor Manufacturing and Chevron. We believe the portfolio could provide ballast during future bouts of market volatility.



HOW ABOUT A VALUE FUND:

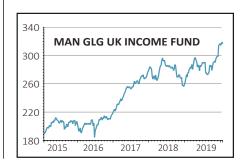
Man GLG UK Income Fund (B0117C2) Yield: 5.4%

Managed by value-focused stockpicker Henry Dixon, Man **GKG UK Income** seeks to achieve a level of income above the FTSE All-Share, together with some capital growth. Although the fund is a multi-cap book, the portfolio breakdown reveals that its holdings are predominantly investments from the FTSE 100 and FTSE 250 ranks.

This Morningstar five-star

rated fund offers an attractive 5.4% yield and has delivered impressive five-year annualised total returns of 10.5%. Given the emphasis on large and mid caps (and lowly starting valuations), we think the fund offers a favourable risk-reward balance.

The well-regarded Dixon seeks to identify companies trading below his estimation of



the value of their tangible assets (such as property, plant and equipment) or whose profits he considers to be undervalued.

A first quartile performer over five years, Man GLG UK Income's portfolio is diversified across 64 holdings with leading positions as at 31 December including tobacco firm Imperial Brands, British Airways-owner **International Consolidated** Airlines (IAG), housebuilder Redrow (RDW) and budget carrier EasyJet (EZJ).



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



EXPERTS
SAYUK STOCKS
COULD SOAR

he general election result has removed one of the major hurdles to investing in UK stocks, namely political uncertainty. Brexit is the next big hurdle and it may not be as bad for UK stocks as investors might think, according to numerous fund managers interviewed by *Shares*.

Despite the UK having to negotiate a full trade deal by 31 December 2020, the fund managers we questioned are generally positive on the economic outlook and the prospects for stocks this year.

'After three and half years as an investment pariah, the election of a business-friendly and By Ian Conway, Tom Sieber and Martin Gamble

stable government for the next five years could lead to it being regarded as an investment 'safe haven'. Overall, we expect this to lead to renewed capital allocations to the UK stock market,' says Gervais Williams, manager of the LF Miton UK Multi Cap Income Fund (B41NHD7).

WHAT HAPPENS NEXT WITH BREXIT?

Although the UK officially leaves the union on 31 January, there are one or two more fences to jump. During this 'transition phase' the UK is still effectively inside the EU's customs union and single market but has no representation in Brussels.

If talks stall, the Government has until 30 June to ask for an extension to the transition period though it has indicated that it has no interest in extending the deadline.

If talks go well, 31 December is the final date for the UK and the EU to agree and ratify a trade deal. Assuming a deal has been reached, we get a new era of trade and political relations; if no deal has been reached the UK faces the prospect of tariffs on all exports to the EU, harming British firms.

So while many big investors are bullish on UK stocks, it is important to understand that trade negotiations could still cause turbulence in the market and it won't necessarily be a smooth ride upwards.

MARKETS DISLIKE UNCERTAINTY

It's the oldest refrain in the book but with good reason – markets really don't like uncertainty. Due to the political and economic risks of the general election and Brexit, overseas investors have mostly shunned the UK market and in particular domestic-facing stocks since 2016. Getting the election 'done' has already helped to change that view.



In addition, the IMF expects the UK to be the fastest-growing European economy this year. That may not be saying much, given the low growth rates forecast for many core European economies, but it's another reason for investors to look at the UK market beyond valuation. Moreover, there are signs that the economy is actually improving.

INDUSTRIAL CONFIDENCE HAS TURNED POSITIVE

Since the election, the data from economic surveys has been uniformly positive. January's Confederation of British Industry (CBI) quarterly manufacturing confidence survey recorded the biggest three-month jump since it began in 1958. The survey found a net 23% of firms are optimistic about the outlook against a net 44% of firms who were negative in the October survey.

According to the CBI's deputy chief economist Anna Leach, 'firms are now planning to invest more in plants and machinery, which will ultimately help increase capacity and output'.

Also, the January flash Purchasing Managers' Index published last week by IHS Markit and the **Chartered Institute of Procurement & Supply** (CIPS) showed a 'decisive change of direction for the private sector economy' following the election. Business activity expanded for the first time in five months, driven by the sharpest increase in new work since September 2018.

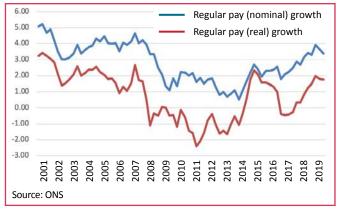
RECENT ECONOMIC DATA **PROVIDE POSITIVE SIGNS**

- Manufacturing confidence improving
 - Business activity expanding •

EMPLOYMENT REMAINS STRONG

The latest labour market figures from the Office for National Statistics (ONS) show the UK employment rate at a record 76.3% in November 2019, 0.5% lower than the previous quarter.

'While Brexit has captured a lot of the headlines, the key is going to be what is



happening to employment, wage growth and inflation in the UK. Employment still remains at record levels and wage increases are now running 2% ahead of inflation which should mean that domestic spending remains robust,' says Andy Brough, co-manager of **Schroder UK Mid-Cap Fund (SCP)**.

Despite record levels of employment, the proportion of men in work is no higher than it was in the late 1980s or 1990s. This suggests that employment could continue to rise without excessive upward pressure on wages, which are currently growing at 3.4% before inflation or 1.8% in real terms.

Simon French, chief economist at Panmure Gordon, agrees. He says: 'There are signs of a pick-up in hiring intentions in the latest survey data and the UK economy keeps confounding estimates of how low unemployment can go without generating sustained wage inflation.

'As such we expect employment to continue to grow during 2020, however the pace of growth is likely to be slower than in recent years as capacity and skills shortages are a growing issue.'

PROPERTY MARKET AND CONSUMER CONFIDENCE STIRRING

Miton's Williams believes that with the political logjam now cleared, there could be more money earmarked for investment in UK property. 'Indeed, there is evidence that this has already started to occur, with **Savills (SVS)** highlighting it in its recent trading statement. Overall, we believe that this could drive down the yields on industrial and some regional office buildings.'

Simon Gergel, manager of Merchants Trust (MRCH) and head of UK equities at Allianz, is equally upbeat on commercial property. He comments: 'We have already seen some direct property investments secured from overseas



investors, post the general election, and we would expect more to follow. A lessening of uncertainty should encourage tenants to sign leases and investors to put money into the sector.'

There are already signs that industry confidence is improving. The Royal Institute of Chartered Surveyors' (RICS) indicator jumped to a net 35% of positive respondents in December against 12% the previous quarter even though less than half the responses came in after the general election. In infrastructure, 19% more surveyors said they saw a rise in work than a fall in coming months while in private housing a net 9% of surveyors reported a rise in activity.

Schroders' Brough suggests that the Government could help the housing market by lowering stamp duty in the upcoming Budget.

Consumer confidence also appears to be recovering. Shortly after the election, GfK's December survey showed a sharp rise as respondents became more optimistic not just about their own finances but about the wider economy. Director Joe Staton called it the most 'robust increase in confidence since the summer of 2016'.

Importantly for retailers, GfK's Major Purchase Index also jumped last month and is now above its December 2018 level suggesting that consumers are more confident about spending on larger items.

In Ipsos Mori's latest global consumer confidence poll published earlier this month, the UK registered the largest gain of any country in the 'economic expectations index'.

OUTLOOK FOR STERLING AND INFLATION

The net effect of the election and the raft of positive economic and sentiment surveys has been to push the pound to a five-week high against the euro while against the US dollar it is steadily gaining ground again.

There had been speculation that the Bank of England was readying a 25 basis point or 0.25% cut in official interest rates in response to the tide of weak Christmas trading reports of the last few weeks. However the strength of the latest surveys suggests a rate cut isn't needed for now so sterling is free to continue its advance.

A strong pound means less imported inflation, as Panmure's French points out: 'Near term,

inflation is set to head lower as a stronger pound, benign energy costs and lower utility bills all weigh on UK prices.

'Towards the end of 2020 we are likely to see a rebound as some of these base effects evaporate. I remain relaxed about structural inflationary pressures, despite a tight labour market, as expectations among households and businesses remain well-anchored.'

Miton's Williams concurs: 'Sterling will gradually appreciate, which would defray a potential increase in the cost of food, energy and clothing imports. Overall, we believe that UK inflation will remain modest.'

OUTLOOK FOR CORPORATE EARNINGS AND TAKEOVERS

On the whole, fund managers are less concerned about corporate earnings this year. 'Overall, we believe that corporate growth in the UK is unlikely to differ much compared with others and run at say just over 5% over 2020,' says Williams.

He adds that if the pound is strong, the international profits of multinationals listed in the UK would translate into lower UK earnings, so in this case earnings might grow at an even slower pace.

Allianz's Gergel believes Brexit is unlikely to be a massive driver for UK quoted company earnings this year, not least because the majority of sales and earnings come from overseas.

'Few large quoted companies are very dependent upon the Brexit outcome,' he says. 'In addition any disruption from Brexit is unlikely to hit the economy in 2020, or not until the last few months, given the transition period.'

On the other hand, other managers were optimistic about the prospect for an increase in corporate activity. According to James Lowen, co-manager of the JO Hambro Capital UK Equity Income Fund (B8FCHK5), the election result and progress on Brexit should unlock allocation and flows into the UK stock market. 'As a result of the greater clarity, we expect corporate activity to increase sharply, particularly for UK-focused stocks. We would not be surprised if 2020 was a record year on this front.'

A pick-up in mergers and acquisitions would theoretically provide a stronger backdrop for investment banks, deal advisers and legal firms which advise on corporate transactions.

FUND MANAGERS POSITIVE ON MARKET DIRECTION

The Government has set a fairly 'demanding' timeline to complete negotiations with the EU over the final terms of the UK's exit, according to Miton's Williams.

However, he says the good news is that the status quo is the default position. 'In our view the Government will have to prioritise a relatively narrow agenda to have any chance of an agreement.

'Overall, we don't expect the Brexit negotiations to have a significant influence on the outcome of the UK stock market over 2020,' he adds.

Allianz's Gergel is similarly upbeat. 'Markets may start to worry about the ability to agree a trade deal later in the year, so there are likely to be some sentiment swings along the way this year and possibly into 2021 if trade negotiations are extended.

'Overall, however, we expect a greater focus on company fundamentals in 2020 rather than big sector and style-driven sentiment swings which have been prevalent since the referendum in 2016.'

Panmure's French believes a pragmatic approach to some of the trade-offs that come with greater political and economic sovereignty will reassure investors that the Government will

EXPECT TO SEE
A PICK-UP IN TAKEOVER
ACTIVITY. THIS COULD BE
GOOD FOR SHARES IN
BANKS WITH INVESTMENT
BANKING OPERATIONS,
CORPORATE BROKERS
AND LAWYERS

avoid unnecessary trade frictions. 'This could lead to a rapid revaluing of UK assets after more than three years when the UK has been out of favour amongst international investors.'

Moreover, as James Henderson, director of UK investment trusts at Janus Henderson, points out, 'the market is pricing in some delay to the final deal and some economic cost, so for Brexit to be quick and relatively painless would be the least expected outcome.'

WHICH AREAS OF THE MARKET COULD DO BEST?

Williams sees mid and small-cap stocks as the most likely beneficiaries of new fund flows into the UK market.

'This pattern has already been evident in the mid-caps over the final quarter of 2019, but at this stage the new wave of capital hasn't drifted down the size bands into small caps, and ultimately into the micro-caps.

'Furthermore, since many of the share prices of small and micro-caps have been dropping back over the last 18 months, we anticipate that the period of small and micro-cap catch-up could be quite marked.'

Kartik Kumar, manager of the **Artemis Alpha Trust (ATS)**, believes that 'recency bias', where investors put an undue weighting on recent events – in this case the political paralysis of the past three years – may be clouding the significance of December's election outcome.

'I would argue that the prospects for a UK bank before the election result and today are not the same. And yet prices indicate they are, with most UK banks share prices flat to down.

'UK banks' such as **Barclays (BARC)** and **Lloyds (LLOY)** could benefit from a pick-up in the economy and are being priced for disruption when further digitalisation could, in fact, benefit their large incumbent customer bases and lower costs.'

He has a similar view with retail, saying there is significant change underway as the strong become stronger and the weak fall away.

'In this sector, companies such as **Dixons Carphone (DC.)** and Sports Direct owner **Frasers (FRAS)** occupy leading market positions but have been dragged down by the wider industry turmoil – unlike operators like **Boohoo** (**BOO:AIM**) and **JD Sports (JD.)** where their leadership is already recognised by the market.'

THREE WAYS TO PLAY A POST-BREXIT UK STOCK MARKET BOUNCE

VISTRY (VTY) £13.71 BUY

The clear Conservative majority has given the housing market some much needed certainty which is a boost to the housebuilders. This sector is a good way to play stronger demand for UK stocks.

Vistry, until recently known as Bovis Homes, should be on a growth path following its £1.14bn acquisition of construction firm **Galliford Try's** (**GFRD**) housebuilding and regeneration divisions.

The company hopes to deliver synergies of £35m over the coming years as it integrates these businesses.

Industry veteran Greg Fitzgerald led the repair job at Vistry after it ran into trouble over build quality in late 2016 and early 2017 and, after taking a step back to make improvements to its operations, the firm is now very much on the front foot.

Although the acquired businesses made no

contribution to the 2019 financial year and the company faced some pressure on sale prices, strong cost control and easing build cost inflation mean it still expects to report a record adjusted pre-tax profit of £181.6m for 2019, slightly ahead of estimates.

Peel Hunt's forecasts put Vistry on a 2020 price-to-net asset value of 1.3 times, below the sector average of 1.8 times, and between 2019 and 2021 earnings per share is expected to advance more than 40%.



MERCANTILE INVESTMENT TRUST (MRC) **261P BUY**

JP Morgan's 135-year-old Mercantile Investment Trust aims to provide income and capital growth through investing in UK mid and small caps that have good track records and significant room for growth that isn't recognised by other investors.

In addition the trust aims to deliver long-term dividend growth which at least matches inflation.

The trust's bias to medium and small sized companies provides diversification to a portfolio which might be focused on UK large caps.

The £2.3bn fund's share price has doubled in value over the last five years while the underlying portfolio has delivered a 76% return compared with the benchmark's return of 48%.

Managed by Guy Anderson and Anthony Lynch, the pair focus on stocks that have disappointed or been neglected by the market where there is an attractive valuation and a catalyst to drive the

share price higher.

The top 10 holdings feature exposure to consumer goods and financials, such as alternative asset manager Intermediate Capital (ICP), housebuilder Bellway (BWY) and fantasy miniatures company Games Workshop (GAW).

Financials and industrials make up half of the portfolio with consumer services and consumer goods another third.



MERIAN UK MID CAP FUND (B1XG948) **339P BUY**

The £3.3bn Merian UK Mid Cap Fund invests at least 75% of its assets in UK mid cap shares and aims to deliver returns greater than the FTSE 250 ex-investment trusts index over three-year rolling periods.

The fund has delivered an 81% return over the last five years compared to 48% for the benchmark.

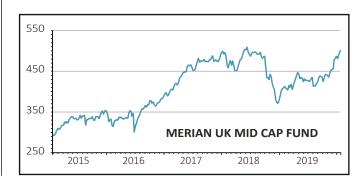
Lead manager Richard Watts has managed the fund since January 2009 and heads a team of five fund managers and three analysts.

The team's flexible investment approach means that they adapt to the changing economic conditions. For example, if the economy is in a recovery phase, the team will look for companies likely to respond quickly to new growth.

The fund currently has 97% of the portfolio invested in mid and small cap shares with the

largest weighting towards consumer cyclical and real estate stocks which make up close to half the portfolio. Financial services represent 12% of the portfolio.

The top 10 holdings include online fashion retail company Boohoo which represents 9% of the portfolio, media outfit Ascential (ASCL), office space supplier Workspace (WKP) and challenger bank OneSavings Bank (OSB).







10 March | Guildhall London, 2:30pm

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Alastair Fothergill, Series Producer of BBC's The Blue Planet, and creator of Our Planet, a landmark series for Netflix

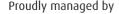


Hannah Fry, Popular mathematician, TED speaker, author and co-host of The Curious Cases of Rutherford & Fry on BBC Radio 4



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Do markets need to care about who is the next US president?

Examining how markets have performed under leaders of different stripes



espite the best efforts of the Democratic Party, it still seems unlikely that US president Donald J. Trump will be impeached, not least because the Republicans have a blocking majority in the Senate, the upper house of Congress.

But Trump could still be unseated on 3 November, when Americans will get to vote for who will be president, as well as all 435 members of the lower House of Representatives and 34 of the 100 members of the Senate, or at least by 14 December when then electoral colleges meet.

The race to the White House kicks off in earnest next week, on Monday 3 February, when Republican and Democrat party members start to vote for their preferred candidates.

lowa will be the first state to express a preference and candidates will be hoping to build up steam here and then move on to New Hampshire (11 Feb) and Nevada (22 Feb) so they can really stake their claim after Super Tuesday (3 Mar) when no fewer than 15 states will hold their so-called primaries.

Assuming he does duck the indignity of impeachment, president Trump will face what looks

like token opposition from three rivals. The real interest lies in who will win the Democrats' race, where Joe Biden, Bernie Sanders, Elizabeth Warren, Pete Buttigieg and Michael Bloomberg appear to be the leading contenders.

Trump will be looking to avoid becoming only the third one-term president since 1945 and victory is not certain. Hillary Clinton actually won more votes than Trump, but the Republican won more votes from the electoral colleges who make the ultimate decision. All it could take is for Michigan, Wisconsin and Pennsylvania for go back to the Democrats for their chosen candidate to prevail.

THE RACE IS ON

It may not just be president Trump who gets an attack of nerves as the race becomes more intense.

Data that stretches back to Harry S. Truman shows that the US stock market, as benchmarked by the Dow Jones Industrials, fares less well on average in the final year of a presidential term, especially if the incumbent is a Republican.

This may reflect nothing more than markets'



US EQUITIES HAVE HISTORICALLY DONE POORLY, ON AVERAGE, IN THE FINAL TERM OF A REPUBLICAN PRESIDENCY

Inauguration	President	Party	Year 4 of presidential term Dow Jones performance
1949	Harry S. Truman	Democrat	5.8%
1953	Dwight D. Eisenhower	Republican	2.8%
1957	Dwight D. Eisenhower	Republican	-1.4%
1961	John F. Kennedy *	Democrat	15.8%
1965	Lyndon B. Johnson	Democrat	5.8%
1969	Richard M. Nixon	Republican	12.7%
1973	Richard M. Nixon **	Republican	1.0%
1977	Jimmy Carter	Democrat	9.6%
1981	Ronald Reagan	Republican	- 2.5 %
1985	Ronald Reagan	Republican	19.0%
1989	George H. W. Bush	Republican	-0.4%
1993	Bill Clinton	Democrat	32.0%
1997	Bill Clinton	Democrat	-6.7%
2001	George W. Bush	Republican	-0.5%
2005	George W. Bush	Republican	-34.3%
2009	Barack Obama	Democrat	7.3%
2013	Barack Obama	Democrat	25.8%
2017	Donald J. Trump ***	Republican	n/a

Average across whole presidential term	38.8%
Average - Democrat	48.5%
Average - Republican	25.9%

Source: Based on calendar year from inauguration day (20 January) and the performance of the Dow Jones Industrials index. *John F. Kennedy assassinated in November 1963 and replaced by Lyndon B. Johnson. **Richard M. Nixon resigned August 1974 and replaced by Gerald R. Ford. ***Trump's fourth year concludes on 19 January 2021.

fears of any swing to the left under the Democrats. However, investors will see from the data that the Dow Jones has tended to do better under them than under the Grand Old Party.

Nor should they forget that Trump was perceived as a *risk* to markets before his election in 2016, thanks in particular to his policies on trade and international relations.

As such it may not pay to get too caught up in the identity of the winner of the party races (which



RUSS MOULD AJ Bell Investment Director



will conclude in July in Milwaukee, Wisconsin for the Democrats and in August in Charlotte, North Carolina for the Republicans) especially as other factors will continue to influence how US equities perform.

THE ECONOMY, STUPID

Federal Reserve policy is one huge factor here and the central bank is independent – although some may be tempted to argue that it caved into presidential pressure when it pushed through three interest rate cuts in 2019.

In addition, corporate profits and especially cash flows drive equity valuations over the long term and they are largely (if not exclusively) the result of the broader economic cycle.

Going back to the data, the impact of the wider macro backdrop upon US equity market performance seems pretty clear, even investors are prepared to give credit to Ronald Reagan for the reforms he initiated to drag the US out of the mire in the early 1980s or even Trump for his 2017 tax cuts.

The recessions of 1948-49, 1954-55, 1957-58 and 1960-61 did not unduly harm stock market performance under Truman, Eisenhower, Kennedy and Johnson but the Dow Jones sagged during the 1970-71 and 1973-75 downturns during the Nixon/ Ford years.

George W. Bush had nothing to do with the tech bust at the turn of the millennium or the collapse of the US housing market but the recessions of 2001 and 2008-09 mean that the Dow did badly across both of his terms.

Equally, thumping economic booms in the 1950s and 1980s and the recovery from the 2007-09 (helped by Fed largesse) mean the stock market performance numbers under Truman, Eisenhower, Obama and Trump look very good.

CAPE FEAR

Investors must also account for equity valuations. Using Professor Robert Shiller's cyclically-adjusted price-to-earnings (CAPE) ratio as a benchmark, the S&P was trading on historically lowly valuations in 1949 and 1953 when Truman and Eisenhower took office, while the ravages of inflation in the 1970s meant that the valuations were rock bottom when Reagan took over in the early 1980s.

That created plenty of potential for upside and the same could be said of when Obama became president in January 2009 just as the financial crisis was abating and a bear market had wreaked havoc.

By contrast, George W. Bush came to power just as the tech bubble had driven valuations that made even the dizzying (and disastrous) heights of 1929 seem modest.

In his case, almost the only way was down and with the Shiller CAPE multiple back near historic highs, the next president and investors could be forgiven for wondering what may come next (although a real melt-up can still be justified by those bold enough to point to the 2000 peak valuation).

SHILLER CAPE VALUATION STANDS **NEAR RECORD HIGHS**



Source: http://www.econ.yale.edu/~shiller/data.htm



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Kuwait poised to follow Saudi Arabia to emerging market status

We look at how the two markets compare with each other



uwait is creeping closer to its elevation to emerging market status as the standing of Middle East equities in global market terms improves.

The experience of Saudi Arabia, after making the leap in 2019, shows the benefit of being promoted from a frontier to an emerging market. Kuwait is on track to make the same move in May 2020.

Since its full inclusion in the MSCI Emerging Markets index in late August 2019, the Saudi Taduwal benchmark has ticked higher.

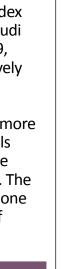
This is impressive given the backdrop, with a significant amount of regional geopolitical strife in the interim including attacks on oil facilities in Saudi Arabia in September 2019 and

mounting tensions between the US and Iran in the first days of 2020.

So how does Kuwait's stock market compare with that of Saudi Arabia? The MSCI Taduwal 30 Index, including the 30 largest Saudi stocks, is heavily weighted towards financials at just more than 50%.

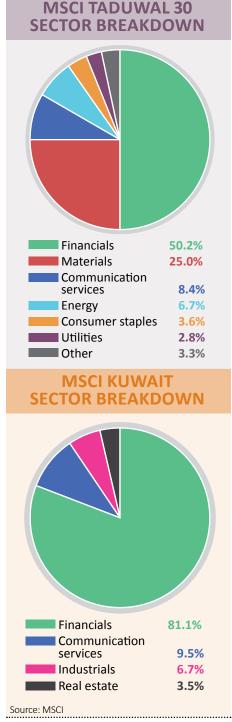
Materials stocks stand at around a quarter of the index and despite the float of Saudi Aramco in December 2019, energy represents a relatively modest 6.7%.

The MSCI Kuwait index shows this market is even more dominated by the financials sector, accounting for more than 80% of its total value. The National Bank of Kuwait alone accounts for nearly 50% of the index.





This outlook is part of a series being sponsored by Templeton Emerging Markets Investment Trust. For more information on the trust, visit here



Emerging markets: Views from the experts

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

Optimism surrounding the government's economic agenda has resulted in a more favorable investment climate in Brazil. The Brazilian market outperformed its emerging market (EM) counterparts with a 14% gain over the fourth quarter of 2019 and 27% increase for the year, both in US dollar terms. Inflation has remained under control, allowing the central bank to ease rates to record lows to stimulate the economy. We believe social security reform is key to stimulating investment and credit, which should help improve economic activity and significantly reduce Brazil's fiscal deficit. A major privatisation plan has also been announced, and tax and other structural reforms should improve the ease of doing business.

Trade and slowing growth fears have largely overshadowed **China's** initiatives to strengthen and diversify its economy. China will be a frontrunner in the fifthgeneration wireless technology arena (5G) and is expected to have some 600m 5G subscribers by 2025, or about 40% of the forecasted 1.6bn subscribers globally. Together with artificial intelligence (AI) and robotics, this should help drive growth in China's new economy as it strives



to become less reliant on the United States. In our view, China will emerge from this challenging period stronger and more self-reliant, with multiple pillars of economic support.

Kuwait is undergoing a multi-year effort to introduce fiscal reforms, increase investment and diversify away from oil dependence. In December, index provider MSCI stated that Kuwait met all the necessary requirements for reclassification to EM status and will be added to the MSCI Emerging Markets Index in May 2020 with an estimated weight of 0.69%. With substantial reserves, low levels of debt and a stable banking sector, we think Kuwait stands out among its peers. Despite trading at a premium to its EM peers, valuations in Kuwait remain reasonable, in our view.

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JADESTONE ENERGY (JSE)

Speaker: Paul Blakeley, President and CEO Jadestone is an oil and gas company which is engaged in exploration, appraisal, and predevelopment activities in Southeast Asia.

MOBILE STREAMS (MOS)

Speaker: Nigel Burton, Chaiman

Mobile Streams PLC is engaged in the sale of mobile content over the internet and the provision of consulting and technical services.

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Speaker: Cathal Friel, Executive Chairman

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Don't expect the gold price to keep soaring in 2020

But the value of the precious metal might still be good enough to help gold miners generate a decent profit

ash is trash, hold gold' was one of the prevailing sentiments from last week's World Economic Forum.

Echoed by several big money managers, billionaire investor Ray Dalio suggested investors should allocate at least 5% of their portfolios to gold and perhaps as much as 10%.

For those looking to get exposure to the shiny metal in some way, according to the World Gold Council there are three main things to look out for when it comes to gold this year – financial uncertainty and lower interest rates, weakening in global economic growth, and gold price volatility.

WHY BUY GOLD?

Gold can do well when there's uncertainty, both financial and geopolitical, as it's considered a safe haven asset.

Swiss government bonds and the Japanese yen are also examples of safe haven assets, but gold is seen as the ultimate one because it is a physical asset and can't be printed like

money and hence have its value changed that way.

Lower interest rates from the US central bank also tend to boost gold prices because rate cuts drag the dollar down, making dollar-denominated assets like gold cheaper for investors holding other currencies.

Last year saw gold have its best performance since 2010, rising by 18.4% in US dollar terms. It also outperformed major global bond and emerging market stock benchmarks in the same period.

Between the start of 2015 and the end of 2018, gold traded in a \$1,100 to \$1,350 per ounce trading range. It then shot up in 2019 with a low of \$1,268 and a high of \$1,520 per ounce, based on daily closing prices.

So far in 2020, the price of gold has gone from a low just below \$1,500 to a high of \$1,569 per ounce.

REASONS NOT TO GET CARRIED AWAY

UBS analyst Joni Teves says January is typically a strong month for gold. She



comments: 'Over the past decade, January tends to be a strong month for gold prices, a combination of more robust support from physical markets given seasonal demand in China ahead of the Lunar New Year holidays and likely some investor positions being built at the start of the year as portfolios are rebalanced.'

Analysts at Berenberg have taken a somewhat conservative view and don't see it going much higher than where it is at the moment.

Laurent Kimman, equity research analyst at Berenberg, thinks gold is likely to stay around the \$1,500 mark this year, and actually go down to around \$1,350 per ounce in 2021 on expectations that rates will not continue to fall.

'The gold price tends to outperform in a rate-cutting environment, like we saw last year. Despite pressures from the US president on the Federal Reserve for an even more supportive monetary policy, recent FOMC minutes have pointed to a stabilisation of interest rates.

'Given that gold is a non-yielding asset, rising interest rates increases the opportunity cost of holding gold and therefore pushes the gold price lower.'

Kimman rubbishes the belief that gold will hit the \$2,000 mark as suggested by many other market commentators. For that to happen there would have to be some unforeseen macroeconomic shock (such as the killing of Iran's General Soleimani), but even then Kimman says any rise in gold would only be temporary, with the fundamentals surrounding the metal putting downward pressure on its long-term price.

Only a global recession would push gold upwards for any prolonged period of time, he adds, but most economists don't see that happening during this year at least.

DOES THIS MEAN GOLD MINING STOCKS AREN'T WORTH BUYING?

There is merit in considering gold mining stocks even if the metal price eases back a bit as miners' profit margins should still be attractive.

Analysts at Jefferies think gold's performance last year won't be repeated

Examples of gold miners on the London Stock Exchange

Outside of the FTSE 350, examples of gold miners on the London stock market include Russian miner **Petropavlovsk (POG)**. It has had several operational problems in the past but appears to be back on track with production in line with guidance.

A more recent market addition is Australian miner **Resolute (RSG)**, which has developed the world's first fully automated underground mine, located in Mali.

Laurent Kimman at Berenberg thinks gold is likely to stay around the \$1,500 mark this year, and actually go down to around \$1,350 per ounce in 2021

in 2020, which in their view makes stock selection 'more important'. Two gold miners they pick out as ones to buy are **Centamin (CEY)** and **Fresnillo (FRES)**.

FTSE 250 miner Centamin remains their top pick because they see stabilisation

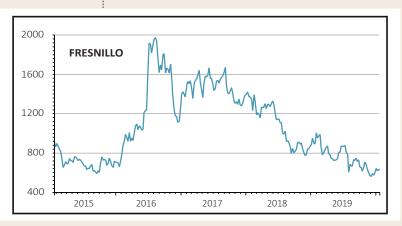
of its operations driving a re-rating in the share price, as well as a robust balance sheet and leading shareholder returns with a 6% prospective yield.

Recent merger interest from Endeavour Mining, in Jefferies' view, highlights Centamin's Sukari mine in Egypt as a 'world-class asset'.

As for Fresnillo, the Mexican miner struggled in 2019. Operational performance and its share price declined in the year.

The analysts expect the second half of Fresnillo's financial year in 2020 to show more pronounced growth before its Juanicipio mine, which is currently under construction, drives a year-on-year step change in silver production (+16%), earnings before interest, tax, depreciation and amortisation (+23%) and free cash flow (+86%) in 2021.

They've put a 'buy' rating and 825p 12-month price target on the stock, compared to its current 627p share price.



GUIDE TO FTSE 350 GOLD MINING STOCKS

WHEN LOOKING AT gold mining stocks, it's important to consider their operational history as it can be a tough industry and it is quite common for mining companies to encounter problems when digging gold or other metals out of the ground.

Also key to consider is the company's all-in

sustaining cost (AISC) of producing gold, which looks at the direct and recurring costs to mine a unit of ore. Any AISC below \$1,000 per ounce of gold is usually considered good. The AISC and average realised price figures used in this article are the most recent ones published by each company.

POLYMETAL (POLY)

Market cap: £5.9bn Forward PE: 10.9

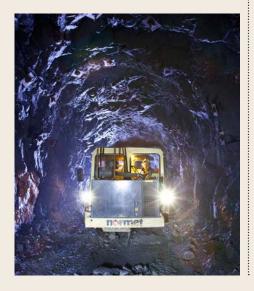
A member of the FTSE 100, Russian gold and silver miner Polymetal has become a favourite with investors thanks to its strong cash flows and operational strength.

Miners can typically be beset by operational difficulties, particularly those mining in remote regions or difficult jurisdictions. But Polymetal has largely managed to avoid such problems and has a good operational track record with a well-regarded management team.

It also performs well on various investment metrics, such as a double-digit return on capital, which at 15.3% stands better than the majority of its peers, while its share price has gone up by a higher percentage than the gold price.

AISC: \$904/oz. Average realised

price: \$1,332/oz.



FRESNILLO (FRES)

Market cap: £4.7bn Forward PE: 27

Mexican gold and silver miner Fresnillo had a tough 2019. Its share price plunged following its half year results in July where it cut the production output guidance and profit forecast.

The company's problems date back to 2016 when it experienced a technical failure at its San Julian mine milling plant.

But analysts at Jefferies think the company can get back on track and that its new Juanicipio mine will drive a step change in production and earnings when built later this year.

AISC: \$1,025.85/oz. Average realised price: \$1,320.74/oz.

HOCHSCHILD MINING (HOC)

Market cap: £867m Forward PE: 14.9

Hochschild Mining had an up and down 2019, producing the second biggest amount of gold in its history but failing to fully capitalise on soaring gold prices as it struggled to keep a lid on costs.

The gold and silver miner, which has three mines in Peru and one in Argentina, had to take a \$11.9m hit after temporarily closing its Arcata mine in February due to low silver prices time, while it was also hit by higher capital expenditure and the devaluation of the Argentine peso.

AISC: \$1,008/oz. Average realised

price: \$1,329/oz.

CENTAMIN (CEY)

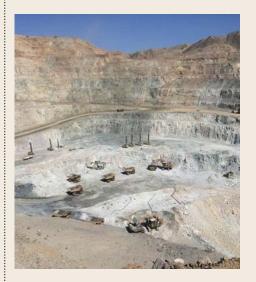
Market cap: £1.5bn **Forward P/E: 17.6**

Recently subject to merger talks with Canada's Endeavour Mining which have since been abandoned, Centamin has long been admired by peers in the sector for its 'prized asset', the Sukari gold mine in Egypt.

This is Centamin's only operational asset and produces around 500,000 ounces of gold a year. It is one of the largest gold deposits in the world with estimated reserves and resources of 15.7m ounces.

The business is eager to diversify geographically and has exploration interests in Burkina Faso and Cote d'Ivoire.

AISC: \$1,141 per oz. Average realised price: \$1,478 per oz.





By Yoosof Farah Reporter





IN THE UK, most people hold all, or almost all, of their pensions and ISAs in publicly-listed companies, like those that make up the FTSE 100. Yet, there are thousands of opportunities lying outside of these public markets that these investors could be missing out on.

One of the reasons is that the pace of companies "going public" has slowed significantly. Indeed, over the past few years, the number of companies with publicly-listed shares has actually been declining on a global basis. In the US for example, the number of listed companies have declined from 6,247 in 2000 to 3,618 in 2017, according to research from Florida University, representing a decline of 42%. At the same time, the number of private equity-backed companies in the US now numbers twice those that are listed.

This means that the number of companies available for "public market" investors is falling. The reasons behind this are likely to be manyfold. Commentators blame significantly increased regulation, the overly short-term focus of investors in public markets and the costs (implicit and explicit) of being listed. There is also now a lot more funding available from big, institutional investors willing to invest privately.

At the same time, investors have become increasingly aware of the rich pickings which can be found among private companies. However, these opportunities are difficult to access for most investors. Being closed-ended, investment trusts have long been in a position to invest in private companies for the long term, given they have no need for liquidity when investors sell their shares. As such, these listed private equity (LPE) funds offer the only real route for retail or non-institutional

investors to invest in a wide range of interesting private companies.

The nuts and bolts of listed private equity

The AIC's Listed Private Equity sector currently constitutes around 15 trusts, many of which have demonstrated strong returns over various cycles. They invest in private companies either directly, or through private equity funds. Each has its advantages and disadvantages, but **NB Private Equity Partners (NBPE)** bridges both approaches. Uniquely, it invests directly into companies alongside a variety of other private equity managers through 'co-investing'.

Co-investing is a relatively widely-used method by which private equity sponsors (or managers) buying a company invite other investors (such as Neuberger Berman) into the deal. They offer full transparency, but normally require a relatively quick decision from prospective co-investors. As such, it requires a specialist team able to analyse companies on a deal-by-deal basis, not to mention an excellent network to source such deals.

The resulting portfolio, built up over a number of years (NBPE originally IPO'd in 2007) has the sort of concentration and diversification one would find within a typical equity fund. This means that investors stand to benefit if any investment is particularly successful, but the portfolio's risks are also managed if an investment goes wrong, as the trust is not overly exposed to one private equity manager or company. The portfolio is also broadly spread by underlying sector.

Click here to find out how NBPE fits into a broader portfolio.

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Who had it better on house-buying: baby boomers or millennials?

First-time buyers today benefit from significantly more Government help such as Lifetime ISA bonus money

t's the perennial question of who had it tougher when getting on the property ladder: those who bought in the 1980s or those who are trying to buy now. Millennials today point to soaring property prices, while baby-boomers highlight record high interest rates. So, who really had it better?

HOUSE PRICES HAVE RISEN...

On a pure price level, house prices were clearly cheaper in the 1980s than now. In 1980 the average UK house price was £20,897, while at the end of last year it was £235,298, according to Government figures. This means that assuming you want to put down a 5% deposit, the amount you need to put down has dramatically increased from £1,045 to £11,765.

...BUT EARNINGS HAVE ALSO RISEN

Clearly in the four decades since the 1980s the price of everything has risen. And so while the average house is more expensive, the average salary is also far higher. In the 1980s the average UK annual salary was £6,214 while the average annual salary now is £30,420.

More helpfully, Nationwide has calculated the proportion of



your annual salary that it takes for a first-time buyer to get on the property ladder. It takes the average price of a sample first-time buyer home across the UK and tracks the price of it and then compares it to average wages. The higher the ratio, the worse affordability is.

In 1983, when the ratio began, it stood at 2.7 – meaning it took 2.7 times the average annual salary to purchase a first home. This has increased to 5.1 in 2019 (the latest data available) – so it takes more than five times the average annual salary to buy a home today.

These affordability ratios vary depending on the region, and unsurprisingly it's changed most dramatically in London, where it's gone from 3.8 to 8.9.

On this measure it's less affordable to buy a property today.

WHAT ABOUT INTEREST RATES?

Those who bought in the Eighties quite rightly point to the fact that they paid eye-wateringly high interest rates on their lending, while today mortgage rates are near record lows. This means that it took more money for those buying in the 1980s just to pay the debt on their loans, let alone eat away at the capital.

The Bank of England's base rate in the 1980s peaked at 15%, where in the past decade the highest it's been is 0.75%, which is the current rate. In the early 1980s the mortgage market was also dominated by building societies and wasn't as competitive as it is today, pushing rates higher. Rates were also variable until 1989, meaning if base rate rose so too did your mortgage rate, rather than having a fixed-rate

option like today.

WHAT ABOUT OTHER COSTS?

As first-time buyers are older now they are likely to have higher other costs, as well as more debt, meaning saving for a deposit is tougher. The average first-time buyer is 30 years old so could well have children to pay for, student debt to pay off and other costs. The average person leaves university with £50,000 of student debt, and so paying this off will eat into a chunk of their income, if they took out loans.

Due to being older when they buy their first home, people are more likely to be in private rented accommodation before getting on the property ladder, and rental prices have risen dramatically. This means people could have less disposable income to save for a deposit.

However, you're more likely to have both partners in the couple working, as more women work now. Those women are also likely to be earning more, as generally speaking more women have career jobs and higher salaries.

FIRST-TIME BUYER **HOUSE PRICE-TO-EARNINGS RATIO**

Region	Year 1983	Year 2019*
North	3.0	3.2
Yorks & H	2.7	3.6
North West	2.4	3.8
East Mids	2.3	4.5
West Mids	2.5	4.6
East Anglia	2.9	5.2
Outer SE	3.0	5.8
Outer Met	3.1	6.6
London	3.7	8.9
South West	3.2	5.9
Wales	2.6	4.0
Scotland	2.5	3.2
North Ireland	2.5	4.0
UK Average	2.7	5.0

Source: Nationwide. Figures based on annual average *2019 figures based on Q1-Q3 2019 and Q4 2018, as it's the latest data available.

WHAT ABOUT GOVERNMENT HELP?

One thing's for sure, there's vastly more Government help available for first-time buyers now. The Lifetime ISA, for example, offers up to £1,000 of Government money towards your deposit for your first home, while the Help to Buy equity loan means you can buy a property with a smaller deposit and smaller mortgage, by taking a loan from the Government.

The stamp duty break for first-time buyers means anyone buying a property worth £500,000 or less won't pay stamp duty on the first £300,000 – saving them £5,000 at current rates. There are also other options available now that weren't an option in the 1980s, such as shared ownership - where you buy part of the property and rent the remainder, with the option of buying more at a later date.



By Laura Suter AJ Bell Personal Finance Analyst

WHAT DOES A FIRST-TIME BUYER LOOK LIKE TODAY?

• Average age: 30

 Amount of household income that goes on mortgage repayments (capital and **interest):** 17.4%

Average mortgage size: £142,500

 Average amount borrowed in relation to income: 3.65 times

 Proportion of transactions involved the 'Bank of Mum and Dad': 25%

Source: UK Finance and L&G.









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SHARES



Should I use a Lifetime ISA for retirement savings?

AJ Bell pensions expert Tom Selby compares this savings wrapper to a SIPP

I've been saving in a SIPP but wanted to know if the Lifetime ISA is worth considering for some of my retirement money (I already own a house)? I'm paying in about £5,000 a year so far and receiving 40% tax relief (20% automatically and 20% through my tax return).

Matt



Tom Selby AJ Bell Senior Analyst says:

A pension and a Lifetime ISA both offer incentives in return for saving for the long-term.

Most people can save up to £40,000 a year in a SIPP, with £32,000 of this amount coming from you and £8,000 added via basic-rate tax relief paid at 20%. So for every £80 you pay in, your provider will add an extra £20 automatically.

Your annual contributions are also restricted to 100% of your UK earnings, while your allowance might be lower if you have accessed taxable income from your pension or you have an income of £150,000 or more. You can read more about the annual allowance here.

If you're a higher (40%) or additional (45%) rate taxpayer vou can also claim back an extra 20% or 25% respectively in tax relief via your tax return. That means a £100 contribution to

a SIPP will only cost £60 to a higher-rate taxpayer, and £55 to an additional rate taxpayer.

Your investment returns and dividends are tax-free, and you can then access your fund from age 55 (this is scheduled to rise to 57 by 2028). You can then access up to 25% of your fund tax-free, with the rest taxed in the same way as earned income.

The Lifetime ISA offers the same upfront savings bonus as a SIPP, but with a maximum personal contribution of £4,000 a year. This is then topped up by 25% to a maximum of £5,000, meaning a basic-rate taxpayer gets the same bonus as they would via tax relief in a SIPP.

Only those aged 18 to 39 can open a Lifetime ISA, and you will only receive the 25% top-up until you reach your 50th birthday.

Investment growth is tax-free, just like a SIPP, but you can also access your fund tax-free from age 60 or use the money to buy your first home provided it is valued at £450,000 or less.

You have the option of

withdrawing money in other circumstances, although the Government will levy a 25% penalty which means you might get back less than you originally put in.

As you are already a homeowner you won't be able to withdraw money tax-free from a Lifetime ISA to buy a property.

When it comes to retirement saving, as a higher-rate taxpayer it's likely that you'll get the biggest bang for your buck from a pension as you qualify for extra tax relief (and therefore a bigger savings bonus). However, if you have used up all your pension allowances in the current tax year – or maxed out your lifetime allowance - it might be worth considering if you have spare cash to save for the long-term.

Lifetime ISAs do not qualify for a matched contribution from your employer in the same way as workplace pensions. If you are in receipt of means-tested benefits, saving in a Lifetime ISA could affect these entitlements while a workplace pension will not.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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



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Using the Portfolio X-Ray tool to better understand your investments

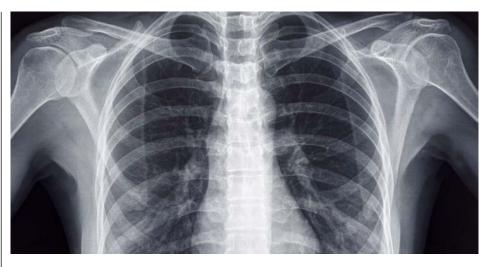
The system breaks down your holdings and tells you everything about asset diversification, performance and lots more

reader has asked if we could explain how to interpret the information from Morningstar's Portfolio X-Ray tool used on AJ Bell Youinvest's website and available from Morningstar directly.

This article offers our thoughts on the usefulness, strengths and weaknesses of the tool. We have also created a randomly selected mock portfolio to illustrate the discussion.



The first page of the Portfolio X-Ray report addresses portfolio diversification and slices your holdings into different assets such as stocks, bonds and cash, as well as countries, sectors and investment styles.



Diversification is about spreading your investments into assets which have different risk and return profiles and smoothing your portfolio returns.

Owning both BP (BP.) and Royal Dutch Shell (RDSB), for example, just increases your exposure to the same factors, which is great when things are going well in the oil sector, but potentially disastrous when things turn ugly.

The highest level involves looking at different assets types, such as stocks, which are very risky, cash which is virtually risk free, and fixed interest investments or bonds which are somewhere in between stocks and cash on the risk ladder.

Each investor's risk appetite, age and current financial health will determine their most appropriate investment exposure. Our mock portfolio has a heavy weighting (87%) in equities, almost half of which are in the UK and another 22% in the US. Asia comes in at around a quarter of the portfolio. This means our portfolio's risk is relatively high.

Our mock portfolio top 10 holdings

Name

- Bankers Investment Trust
- 2 Schroder Oriental Income Fund
- Syncona
- 4 International Biotechnology Trust
- 6 Cash GBP
- 6 AstraZeneca
- Aviva
- Scottish Investment Trust
- National Grid
- Severn Trent



In times of market stress we should expect our portfolio to underperform a more balanced portfolio and even lose money if markets go south.

It is worth noting that the mock portfolio holds investment trusts and the Portfolio X-Rav tool has taken the individual holdings in each product into account when calculating country exposures.

We will look at the risk side of things later in the article.

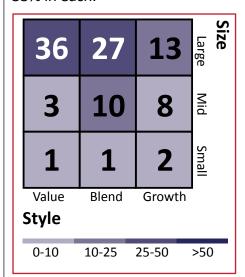
SECTORS

Drilling down to individual stocks within the equity portion of our portfolio, the X-Ray tool analyses the types of stock held and sector breakdown. The report divides the portfolio into Cyclical, Sensitive and Defensive.

What this attempts to do is categorise stocks according to how correlated or sensitive they are to the business cycle. Cyclical stocks such as housebuilders are highly sensitive to the economy, while Defensives such as utilities are not very sensitive. Stocks deemed Sensitive, such as industrial companies, are somewhere in between.

Given that most people haven't a clue whether the economy will be expanding or contracting next year, it's best

to spread investments across all three categories, as our mock portfolio has done with roughly 33% in each.



INVESTMENT STYLES

Investment styles such as value, growth and size tend to come in and out of favour as the economy expands and contracts and therefore it is worth spreading exposure across different investment styles. Over-exposure to a single factor will impact the performance of your overall portfolio and make the returns more volatile.

Our portfolio is tilted towards large caps (76%) and value (40%) but it also has 37% in stocks which are considered a blend of value and growth companies. If small cap growth investing came into vogue our portfolio might suffer poor

performance as it only has 2% in that style.

PERFORMANCE AND RISK

It's always useful to see how your portfolio has performed and not just in isolation, but against an appropriate benchmark.

It should be remembered that investing is a long-term activity and therefore it makes more sense to focus on the three and five year returns rather than the 'noisy' shorter-term numbers.

You can see from the report how you performed in absolute terms and relative to a benchmark. The '+/- Benchmark' figure is the amount by which you have outperformed or underperformed, not the actual benchmark performance figure.





EDUCATION



HOW MUCH RISK DID YOU TAKE TO GET YOUR RETURN?

The finance industry has adopted standard deviation as the way to measure risk. This simply measures how much

STATISTICS FOR OUR MOCK PORTFOLIO					
Risk And Return Statistics	3 Yr	5 Yr			
Standard Deviation	8.91	9.16			
Mean	11.81	11.68			
Sharpe Ratio	1.26	1.22			
MPT Statistics	3 Yr	5 Yr			
Alpha	5.39	3.64			
Beta	0.81	0.81			
R-Squared	74.52	77.85			
Information Ratio	0.91	0.46			
Tracking Error	4.85	4.70			

the value of your portfolio 'moves around'. For example, in the unlikely case of your portfolio delivering 5% every year, with no exceptions, the standard deviation would be zero. Here, in this context, less is more.

The Sharpe ratio incorporates the standard deviation to calculate a risk-adjusted return and is considered a better measure of success. The higher the figure the better and any value greater than one is considered good. Two is very good and three is excellent.



By **Martin Gamble** Senior Reporter



Never from concentrate

We don't think it's a good idea to squeeze all your income from just a few stocks.

FP Octopus UK Multi Cap Income Fund has blended small, medium and large UK companies to become the best performing fund in its sector, over one year.

The value of your investment, and any income, can fall or rise. You may get back less than you invest. Smaller companies can fluctuate more in value and they may be harder to sell.



octopus investments

A brighter way



* The discounted Ongoing Charges Figure (OCF) of 0.45% is available if you invest before the fund's assets reach £50m. After this point the OCF will be 0.90%

	31/12/2018 31/12/2019	31/12/2017 31/12/2018	31/12/2016 31/12/2017	31/12/2015 31/12/2016	31/12/2014 31/12/2015
FP Octopus UK Multi Cap Income S Acc	34.0%	n/a	n/a	n/a	n/a
FTSE All Share	19.1%	-9.4	13.1	16.7	0.9
IA UK Equity Income sector average	19.8%	-10.5	11.3	8.8	6.4

Past performance is not a guarantee of future returns.

Fees are deducted from capital which will increase the amount of income available for distribution. However, this will erode capital and may hinder capital growth. Before investing you should read the Prospectus, the Key Investor Information Document (KIID) and the Supplementary Information Document (SID) as they contain important information regarding the fund, including charges, tax and

fund specific risk warnings and will form the basis of any investment. The Prospectus, KIID and application forms are available in English at octopusinvestments.com. Issued by Octopus Investments Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 33 Holborn, London, EC1N 2HT. Registered in England and Wales No. 03942880.

Source: Lipper, 31/12/14 to 31/12/19. Returns are based on published dealing prices, single price mid to mid with net income reinvested, net of fees, in sterling.

The pros and cons of tiny investment funds

Data shows that funds managing small amounts of money can still do well

nvestors are often told to avoid funds with less than £100m of assets under management (AuM) on the premise that they are sub-scale and might have higher fees than many funds with similar investment mandates. However, performance statistics would suggest some of these tiddler funds might still be worth a look.

Data from Fe Fundinfo shows that of the 4,505 funds in the Investment Association universe, 1,257 funds outperformed their benchmark by more than 1% over the past year. Of the market-beating funds, one third had less than £100 AuM.

Admittedly this is only one year's worth of data, but it presents an interesting picture.

PROS AND CONS

So why does it matter how much money a fund is running? For one reason, investors need to be sure that a fund is capable of generating enough fees so as to be able to pay its manager or managers, as well as support staff, to a good job.

Writing in 2017, Leola Ross, Russell Investments' director of investment strategy and research, said: 'Less AuM to manage means, in the simplest terms, more nimbleness when it comes to finding upside opportunities and managing against uncompensated risk. This is especially true in portfolios

with liquidity constraints.'

US-based Russell Investments has been running fund performance studies for the past few decades and when it comes to active managers, one preference that has stood out over the years is the scope for managers with a relatively small AuM to beat their larger cousins.

'We believe skilled active managers with relatively smaller AuM may have a performance advantage over their higher AuM counterparts,' added Ross.

The cons of smaller AuM funds include cost, according to Simon Molica, a fund manager at AJ Bell. 'Large funds can have significant cost attractions as they benefit from scale, so fixed costs become lower when spread across more assets,' he says.

Morningstar warns that if the fund companies aren't recouping the costs of running funds

with smaller AuM, then their existence is effectively being subsidised by fees on other funds the asset manager might run, 'suggesting that even investors in perfectly good funds could have lower fees if firms were more disciplined in closing tiny funds.'

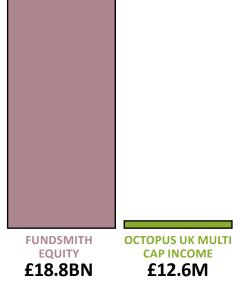
Investors should also think about whether an asset manager would really be committed to a tiny fund if they couldn't attract more inflows. Molica says he would certainly have concerns about the viability of a fund if the investment house couldn't grow it and it is not profitable.

CUTTING COSTS

Dominic Fisher, founder and manager of the £15m VT Thistledown Income Fund (BNGXQZO), says it is still possible to cut costs even if a fund is small.

He gives the example of the falling cost of data services for research working in lower AuM funds' favour. 'We use Factset and CapitallQ', says Fisher. 'Many years ago these types of services were very expensive but the price has come down appreciably, and that's great for smaller funds.'

Such tools are vital to asset managers who don't have large teams of analysts to help the fund managers with their research. However, one could argue that funds with limited AuM – particularly those looking



at the whole of the market – are still at a disadvantage if the managers are overstretched due to a lack of resources.

SMALL AUM, HIGH RETURN

October 2018 saw the launch of FP Octopus UK Multi Cap Income (BG47Q33), run by specialist small and mid-cap stock picker Chris McVey. While he benefits from being part of a large team at Octopus which invests in various parts of the quoted and unquoted market, it is fair to say that the income fund's current AuM of £12.6m might seem disappointing in the context of the £1bn+ Octopus manages for venture capital investors.

'Launching into negative flows is always challenging', says McVey, referring to the fact that his fund hit the market at a point when many big investors had turned their back on UK stocks. However, a strong debut performance for the fund might help to encourage more interest.

Octopus UK Multi Cap Income is the best performing fund in the IA UK Equity Income sector over the past 12 months (+32.4% total return), beating some really big funds including the £5.3bn Artemis Income Fund (B2PLJJ3) which returned 19% and the £2.3bn Schroder Income Fund (B3PM119) which achieved a meagre 2.3% return.

The accompanying table illustrates how some of the really tiny funds – as measured by AuM being below £30m – can still generate good returns. However, what's done well in the past may not necessarily do well in the future.

BEST PERFORMING FUNDS WITH £30m AUM OR LESS

Fund	Fund size	1 year total return (%)
HC Charteris Gold & Precious Metals	£16.3m	49.1%
IFSL James Hambro Penrhos	£9.5m	43.8%
First State All China	£11.3m	36.4%
Investec UK Sustainable Equity	£28.6m	34.7%
PUTM Cautious	£0.4m	34.3%
FP Octopus UK Multi Cap Income	£12.7m	32.4%
Dominion Global Trends Luxury Consumer	£26.2m	32.4%
MI Charles Stanley Equity	£13.9m	32.3%
Liontrust Global Dividend	£13.7m	32.3%
Lord Abbett U.S. Growth Leaders	£28.9m	32.2%

WORST PERFORMING FUNDS WITH £30m AUM OR LESS

Fund	Fund size	1 year total return (%)
VT Garraway Absolute Equity	£6.5m	-44.9%
BMO Global Equity Market Neutral	£19.7m	-32.8%
VT Oxeye Hedged Income Option	£4.8m	-26.7%
MFM Junior Oils Trust	£6.0m	-17.6%
Elite Webb Capital Smaller Companies Income & Growth	£2.2m	-13.6%
LF Majedie Tortoise	£25.5m	-9.6%
EF FACET Cautious Discretionary Portfolio	£15.7m	-7.6%
MFS Meridian Global Energy	£8.4m	-5.3%
MI Downing UK Micro-Cap Growth	£12.2m	-4.9%
BlackRock Emerging Markets Absolute Alpha	£6.3m	-4.0%

Source: FE Fundinfo. Data to 27 Jan 2020.

Ultimately an active fund is only as a good as its manager or managers' asset picking skills and investors will still need to research the market very thoroughly to separate the winners from the losers. Just don't automatically write off the tiny funds without

further investigation as there may well be some golden nuggets out there.



By **Steven Frazer** News Editor

KEY

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

31 January: Premier Veterinary. 3 February: Porvair. 4 February: Micro Focus, RM, St Modwen. 5 February: Smurfit Kappa.

Half year results

31 January: Hargreaves Lansdown. 4 February: Genedrive, K3 Capital, Mattioli Woods. 5 February: Barratt, Frontier Developments. 6 February: Ashmore, Filtronic.

Trading statements

31 January: SSE. 4 February: BP. 5 February: Vodafone, GlaxoSmithKline. 6 February: Compass.

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