STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 22 / ISSUE 29 / 23 JULY 2020 / £4.49

SHARES

WE MAKE INVESTING EASIER

TECH STOCK MANIA

Everyone wants a slice of the digital world

PLUS

BIOTECH RALLY ON COVID TREATMENTS BECOMING **HARDER TO JUSTIFY**

LESSER-KNOWN QUALITY FUNDS **GIVING FUNDSMITH A RUN FOR ITS MONEY**

PREDICTING INVESTMENT RETURNS FOR THE NEXT DECADE

Predicting investment returns for the next decade

A new report sheds some light on how much investors could make from different asset classes

It is important to set the right expectations with investing and one way is to look at historical averages for different asset classes. That will give you a sense of what is achievable, albeit there will be years when returns are considerably above or below these levels.

Another way of setting your expectations is by looking at predictions for future returns, which is where Pictet's annual Horizon report comes in handy. The asset manager weighs up the state of the world and predicts average returns for the next 10 years across different parts of the market and a range of asset classes.

This year's report has just been published and includes a prediction that global equities, as measured by the MSCI World index, will return an annual average of 6.5% including dividends over the next decade. It foresees emerging market equities as returning 7.8% on average a year over the same period, and a bit less from UK equities at 5.8%.

The returns from certain government bonds could be negative over the next 10 years, such as UK, Japanese and German bonds. Corporate bonds might be a better place for your money with Pictet estimating 5.3% returns from global high yield bonds and 3.1% from global investment grade bonds.

Having an idea what you could potentially make in the future can help with financial planning. While there is no guarantee forecasts will pan out, having a realistic estimate means you can work out if a certain goal is achievable.

For example, you might want to have £60,000 in 10 years' time so your two children can go through university and not be saddled with massive debts at the end of it. Someone who has a £1,500 lump sum could invest that amount and then put £400 in the market each month and have £60,200 after a decade, based on 4.5% annual investment growth and 0.75% charges.

That's a conservative growth rate assumption as it is less than Pictet's entire equity predictions. But often it pays to be conservative with your expectations as markets have a habit of serving up both good and bad surprises along the way.

PICTET'S EXPECTED ANNUAL RETURNS OVER THE NEXT 10 YEARS

BONDS	
10-year global government bonds	0.5%
Global investment grade corporate bonds	3.1%
Global high yield corporate bonds	5.3%
EQUITIES	
Japanese equities	5.0%
European equities	5.2%
US equities	6.5%
UK equities	5.8%
Emerging market equities	7.8%
Asia ex-Japan equities	8.1%
ALTERNATIVES	
Gold	4.4%
Infrastructure	5.6%
Private equity	10.1%

Source: Pictet, July 2020

And don't forget to diversify – just because someone's predictions say you could generate a certain rate of return through a specific type of investment doesn't mean you should just put all your money in that area. Spread your risks through having lots of different types of equity exposure and other asset classes.

Interestingly, Pictet says the widely followed 60:40 rule of equities (60%) and bonds (40%) may not be the most appropriate for portfolio asset allocation today.

It suggests having one third of assets in equities, one third in bonds, and one third in private equity, gold, real estate and potentially infrastructure which it believes have the potential to boost long-term returns. It says this is like endowment investing and involves putting money into less liquid assets. We'll endeavour to explore asset allocation in more depth in a future issue of *Shares*.

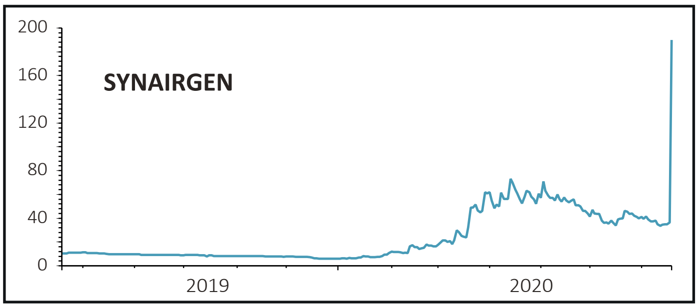
Contents

CFA UK Publication of the Year CFA UK Journalism Awards 2019

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

Biotech rally on Covid treatments becoming harder to justify

Investors appear to be pricing in significant future financial rewards which may ultimately disappoint



Having been out of favour with investors for the last few years healthcare stocks have become hot property with some remarkable share price performances since the outbreak of Covid-19.

The response to the virus has been impressive with over 90 candidate vaccines currently being tested globally with positive early signs from several trials, but the share price reactions are becoming harder to justify.

For example, respiratory drug development company **Synairgen (SNG:AIM)** soared as much as 548% to 236p in a single day (20 Jul) following a major breakthrough in the treatment of hospitalised Covid-19 patients.

On the same day medical diagnostics company **Omega Diagnostics (ODX:AIM)** surged 30% to 46.5p on no news at all. The company is part of the UK's Rapid Test Consortium which is developing a home antibody test kit. As recently as 23 March the shares were trading at 6.6p.

AstraZeneca's (AZN) shares saw a brief 6.5% spike on 20 July after it said initial results of its trial led by Oxford University had generated a robust immune response against the Covid-19 virus in all participants.

Investors seem to be jumping on every news release regardless of the content and likely economic benefits. Meanwhile the underlying landscape has become a lot more competitive which raises the risk that perceived financial benefits could quickly disappear if another firm finds a better or cheaper solution.

US firms Moderna Therapeutics and Gilead Sciences have also seen their share prices driven up each time they release news on clinical trials. On 18 May Moderna's shares surged 23% after its experimental vaccine showed promise in a small early-stage trial and the shares are up 314% year-to-date. Moderna is no tiddler either with a market cap of $32 billion.

'The first clinical data for at least three of the Covid-19 vaccine frontrunners has now been formally published (namely mRNA vaccines from Moderna and Pfizer/Biontech respectively and Oxford/AstraZeneca's adenovirus-based vaccine),' says Tara Raveendran, healthcare analyst at Shore Capital.

'While it is difficult to make cross-trial comparisons and draw specific conclusions from such early data, we are overall encouraged by the data to date, at both the level of neutralising antibodies (particularly Pfizer/Biontech's BNT162b1 – with antibody levels two to three times those seen in recovered patients vs Astra's c.1x) and the T-cell responses for BNT162b1 and Oxford/Astra's AZD12222.'

US strategist David Rosenberg has been keeping tabs on virus-related drug and trial news and estimates that most of the gains in US markets since March can be attributed to the days following news about positive drug trials.

Not all the hope priced into biotech shares will be justified by future revenues and profits.

Netflix under pressure to retain customers won during lockdown

The streaming giant has seen a surge in new users but will they stay for long?

US streaming giant **Netflix** is on track to break the 200 million subscriber mark this year and growth in users could beat current expectations assuming long-run trends play out through the rest of 2020.

Figures announced on 16 July showed that Netflix added more paid subscribers over the past six months than ever before in its history. More than 10 million net people signed up to the films and TV shows service in the three months to 30 June, comfortably beating forecasts which called for 7.5 million net new additions in the second quarter.

Netflix has been one of the most obvious winners through the Covid-19 lockdown, with millions of people streaming films and TV shows while forced to stay home. Nearly 16 million new subscribers were added in the first quarter, its most successful three months ever.

That brings Netflix's global paid memberships to 193 million, up 26 million since the beginning of 2020. To add some perspective, Netflix added just 12 million subscribers in the first half of 2019 and less than 28 million in the entire year.

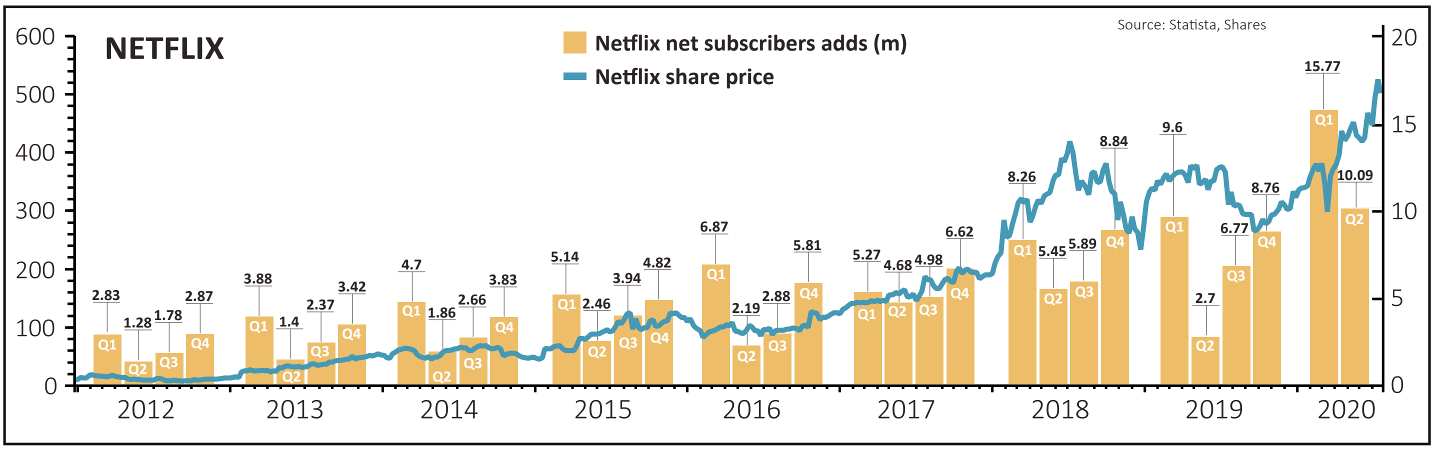
Revenue and earnings per share (EPS) during the latest quarter came in at $6.15 billion and $1.59 respectively, beating market expectations of $6.08 billion income, but missing EPS estimates pitched at $1.83. But subscription growth is what matters to the market most, and investors were left concerned about weak guidance.

The company said it expects to add 2.5 million subscribers by the end of September, which would mark the lowest level of growth since 2016. The news spooked investors and triggered a 6.5% correction in the share price to $492.99.

Long-run trends suggest Netflix could see stronger subscriber growth than feared. Since 2012 Netflix has seen its biggest growth in new sign-ups during the first and fourth quarters, with the second quarter consistently its weakest.

Over the past three years Netflix has added a combined 17.6 million net subscribers during its third quarter, peaking at 6.77 million last year. In two of those three years, the fourth quarter has proved to be its strongest for growth.

A continuation of lockdown restrictions amid localised flare-ups would be positive for Netflix, acting as a catalyst for more people to try its service. However, there is also the risk that recent subscribers cancel their plans once life returns to normal, suggesting that Netflix could have a large customer churn problem going into 2021.



Stamp duty holiday boosts house prices and property-related shares

Rightmove's house price survey posts biggest jump in over three years

The decision by chancellor Rishi Sunak to temporarily waive stamp duty on the purchase of homes up to the value of £500,000 in England and Northern Ireland until the end of March 2021 has reignited the housing market after months of hibernation caused by the coronavirus.

Since the announcement on 8 July, shares in the housebuilders have mostly beaten the FTSE All-Share index with gains of between 1.5% at **Redrow (RDW)** and 8.2% at **Persimmon (PSN)**.

The only laggards have been **Crest Nicholson (CRST)**, **Taylor Wimpey (TW.)** and **Vistry (VTY)**, which are down between 1.2% and 2.5% against an index gain of just 1%.

Property portal **Rightmove (RMV)** itself has marginally beaten the index, up 1.7% in line with estate agency **Countrywide (CWD)**, while **Foxtons (FOXT)** has led the pack up 5.3% followed by **Purplebricks (PURP:AIM)** with a 3% gain.

The latest Rightmove house price index, based on 95% of newly marketed property in England, Scotland and Wales, shows the largest monthly increase in three and a half years in July, with the average selling price rising 3.7% year on year to a record £320,265.

This marks an increase of 2.4% or £7,640 over the average price in March, before the housing market was put on hold. Rightmove was unable to calculate the index for the whole of the UK in May and June due to lack of available data.

Rightmove also reported that so far this month buyer enquiries are up 75% on last July and the number of monthly sales agreed in England is already up 15% on last year.

After months of speculation regarding the impact of the crisis on the housing market, the latest figures should help lift consumer confidence which has taken a beating in the last four months.

UK RIGHTMOVE AVERAGE SELLING PRICE VS CONSUMER CONFIDENCE

Date	Rightmove average selling price £	UK consumer confidence index
July 2019	308,692	-11
Aug 2019	305,500	-14
Sept 2019	304,770	-12
Oct 2019	306,712	-14
Nov 2019	302,808	-14
Dec 2019	300,025	-11
Jan 2020	306,810	-9
Feb 2020	309,399	-7
March 2020	312,625	-9
April 2020	311,950	-34
May 2020	n/a	-36
June 2020	n/a	-27
July 2020	320,265	n/a

Source: Rightmove, GfK, Shares

Miles Shipside, Rightmove director, says: 'The unexpected mini boom continues to gather momentum. Prices are gently rising not falling, and this will be reflected in other house price reports.'

The stamp duty move is designed to help young people, whose finances and jobs have been most severely affected by the crisis, get on the property ladder.

It is also designed to help the housebuilding sector, which supports nearly 750,000 jobs, while millions of people need affordable housing to find work. Following the cut, it is estimated that 90% of people buying a home between now and the end of the year will pay no stamp duty at all.

UK dividends could drop by 40% in 2020

There is also significant concentration risk in income funds

UK dividends plunged 57% in the second quarter and could see a 40% decline across the whole of 2020, according to financial administrator Link.

Second quarter dividends fell by 57.2% to £16.1 billion on a headline basis (including special dividends). Excluding specials, exceptionally high this time last year, the decline was 50.2% to £16 billion.

Link's best-case scenario now sees dividends falling 39% to £60.5 billion on an underlying basis this year and 43% to £56.3 billion on a worst-case basis.

Meanwhile, Octopus Investments warns significant concentration risk remains across the Investment Association UK Equity Income Sector with a large proportion of funds relying on the same stocks to generate income.

Eighty percent of funds in the sector hold **GlaxoSmithKline (GSK)** and nearly half (46%) hold **British American Tobacco (BATS)**. **AstraZeneca (AZN)** and **Rio Tinto (RIO)** feature as a major position in 37% of the income funds.

Oil and gas is less popular

with the number of funds in the income sector holding **Royal Dutch Shell (RDSB)** as a top 10 position halving between January and May to 36%. This is a result of Shell cutting its dividend.

BP (BP.) is the third most widely held stock in the sector despite growing expectations for it to cut dividends in August.

Future shows resilience to coronavirus crisis

Publisher defies gloomy backdrop for its wider industry

NOT TOO MANY businesses are currently guiding for their results to come in at the top end of expectations, indeed many are not providing any guidance at all, but media stock **Future (FUTR)** has bucked the trend.

A strong showing for its digital business through lockdown, progress on the integration of the recently acquired TI Media business, which brought in a number of publications including *Marie Claire UK*, and tight cost control helped contribute to the winning performance.

Having recovered most of the ground it lost in the initial coronavirus correction, the shares now trade on a price-to-earnings ratio of 17.6.

FUTURE'S GUIDANCE IMPLIES EARNINGS GROWTH OF **66%** FOR SEPTEMBER 2020 FINANCIAL YEAR

In theory the bleak outlook for much of the publishing sector should fit neatly with Future's strategy of acquiring specialist titles cheaply and then monetising the content through an e-commerce and digital advertising platform.

The opportunities will have to be balanced against the need to preserve balance sheet strength as it continues to face into an uncertain backdrop. Berenberg forecasts the company to end the September 2020 financial year with net debt of £80 million.

Tune into Focusrite for big growth potential

Audio hardware and software specialist looks well-placed after Covid boost

Focusrite (TUNE:AIM) is a world leader in audio technology with investment in its software offering set to boost returns.

The shares have performed well as the company has been among the beneficiaries of the enforced stay at home trend created by Covid-19. As a result, they are not cheap on 26 times consensus forecast earnings, but we think the long-term opportunity more than justifies the price.

On 10 July the company said it would beat expectations for the year to 31 August 2020 with demand for Focusrite Audio Engineering and ADAM Audio products strong through lockdown, with sales coming through e-commerce platforms rather than physical stores.

FOCUSRITE
BUY
(TUNE:AIM) 687p
Market cap: £400 million

Part of this sales success has been driven by a home recording boom during lockdown which we don't see as being a one-off boost. The company signalled confidence in the outlook by restarting its dividend.

Historically the company's products, which enable the recording of audio as well as mixing, editing and distribution, have been concentrated in the music industry. There is now scope to step out into areas like podcasting, computer game streaming and online learning as well as social media channels.

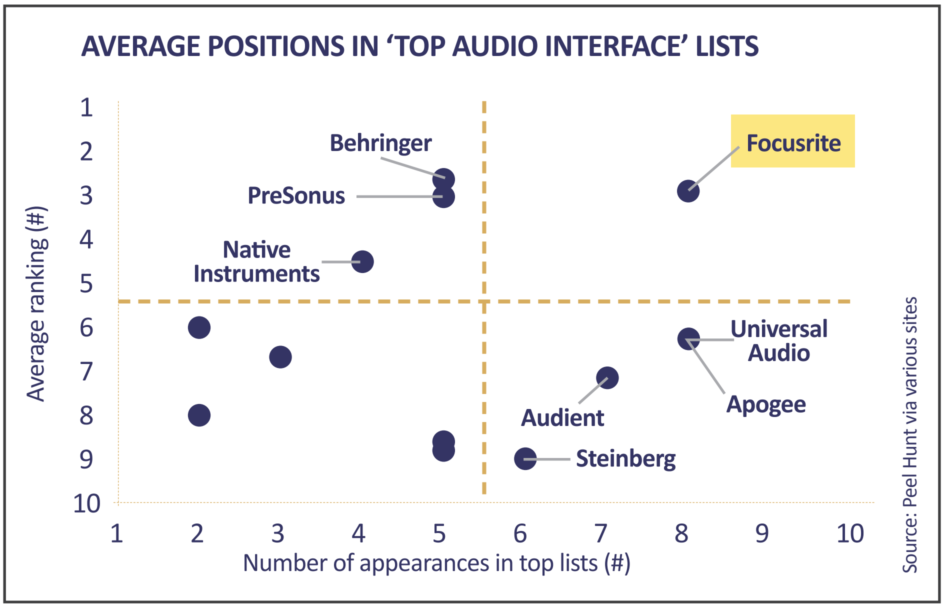
With a range of products at different price points the company can capture everyone from the amateur to the professional. Its high-specification hardware is highly rated by critics and users.

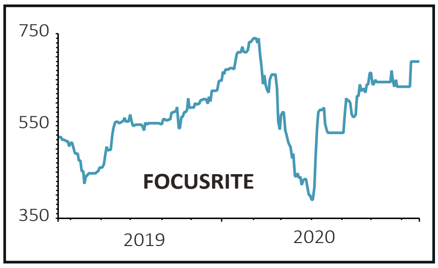
Focusrite does nearly all its business through distributors and third-party retailers and according to Peel Hunt achieves a gross margin of 40%, the assembly of the hardware itself being the main cost of operating.

Expansion on the software side could increase exposure to an activity which the broker believes should generate gross margins of 90% or more.

The company's main platform in this area, Ampify, provides software and content for the creation of audio. The company has just launched its first product for Mac and Windows – Ampify Studio – and as a subscription-based service it should allow the company to enjoy recurring revenue, improving the quality and predictability of its earnings.

Focusrite has an opportunity to expand its presence in new markets, with Latin America a potential avenue for growth as it is one of the fastest growing parts of the world for purchase of music content.





The stock thriving from a boom in alternatives and ESG investments

Specialist fund manager Gresham House is beating forecasts and has a credible growth plan

In the last five years chief executive Tony Dalwood and his team have utterly transformed investment company **Gresham House (GHE:AIM)**. The company has amassed £3.3 billion of assets under management (AUM) and established itself as a specialist alternatives asset manager with a strong focus on environmental, social and governance (ESG) issues.

Clients range from high net worth individuals and business owners to charities, endowments, family offices and institutions, while its products include direct investments and co-investments as well as more traditional funds.

GRESHAM HOUSE

BUY

(GHE:AIM) 627p

Market cap: £190m

BUSINESS STRUCTURE

It operates two divisions, sustainable real assets and strategic equity. The real assets division covers forestry, new energy, housing and infrastructure, and accounts for almost three quarters of AUM, with strategic equity – both public and private – making up the balance.

The biggest asset class is forestry, where the firm has over £1.3 billion of investments and planted over 4 million trees in UKWAS-certified forests last year, capturing 1.5 million tonnes of carbon dioxide. The firm also made its first forestry acquisition in Ireland on behalf of the investment management arm of French insurer Axa.

The next biggest business is strategic equity, which has enjoyed strong inflows in the first half of the year, offsetting the weak performance of public and private markets.

The **Gresham House Strategic (GHS)** fund, run by Tony Dalwood and ex-River and Mercantile founder Richard Staveley, takes sizeable stakes in smaller quoted companies which it believes are 'intrinsically undervalued' with the aim of doubling its money over five years.

Among its major holdings are waste management firm **Augean (AUG:AIM)** and industrial services and rental firm **Northbridge (NBI:AIM)**.

MARKET LEADING INCOME FUND

Another of its funds, **LF Gresham House UK Multi-Cap Income (BYXVGS7)**, run by Ken Wotton and Brendan Gulston, celebrated its third anniversary at the end of June and is the best performing fund out of 87 in the Investment Association UK equity income sector over that period, returning 19.1% against a 10.7% decline for the sector.

Finally, the firm manages over £1 billion of real assets in infrastructure, housing and new energy. Capitalising on its experience in property, it is about to launch a residential secure income fund investing in the shared ownership market.

In new energy, the **Gresham**

House Energy Storage Fund (GRID) is the UK's largest operational battery storage fund. Battery storage is a low-cost, low-carbon way of providing energy to the power grid when renewable sources fall short.

In mid-May, its recently-acquired Bloxwich facility in the West Midlands was used for the first time to stabilise electricity supply to **National Grid (NG.)**, a role normally filled by large combined-cycle gas turbines or other thermal generation at significant cost both financially and in terms of carbon emissions.

With two more acquisitions in the pipeline, each of 50MW, and a 10MW upgrade to another facility in Kent, by the end of September capacity will be 325MW or larger than many conventional thermal power stations.

BUSINESS ATTRACTIONS

Tony Dalwood says the attraction of its various businesses is that they hold long-term assets, with long-term contracts, and they have a stable client base invested for the long term.

'We're committed to growing the asset base organically and through acquisition, expanding the shareholder base and developing the investment pipeline. We're also committed to operating responsibly and sustainably, building long-term value across the portfolio.'

He admits that there is tailwind in terms of demand for alternatives, and especially ESG investments, but points out that from the beginning Gresham House has sought to make a positive social, economic or environmental impact with its investments.

Sustainable practices are integrated across the different strategies within a structured reporting framework, and the firm has recently appointed a new director of sustainable investing, Rebecca Craddock-Taylor.

GRESHAM HOUSE ESTIMATES

	2019A	2020E	2021E
AUM	£2.8bn	£3.3bn	£3.5bn
Revenues	£33.5m	£35.2m	£37.9m
EBITDA	£10.7m	£10.6m	£11.7m
Margin	32%	30%	31%
Pre-tax Profit	£10.3m	£10.5m	£11.5m
EPS	32.2p	30.5p	30.9p
Dividend	4.5p	5p	5.5p

Source: Canaccord Genuity, Shares

BIG GROWTH PLAN

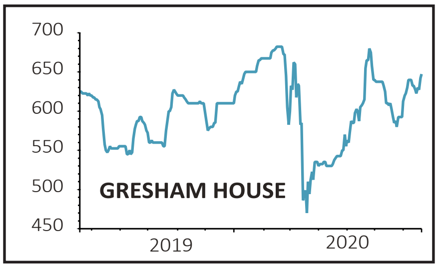
It has recently launched a five-year growth strategy called GH25 which aims to double shareholder value, increase AUM to more than £6 billion, raise the margin of earnings before interest, taxes, depreciation and amortisation (EBITDA) to sales from 30% to 40%, and generate an internal rate of return of over 15% per year.

'We have three levers to create value: profit growth, multiple expansion and a solid balance sheet to fund growth,' says Dalwood.

Given that first-half earnings and AUM were well ahead of expectations, and that analysts are mostly predicting a stable rather than growing EBITDA margin, it seems fair to suggest that more earnings upgrades are on the cards. Investors may also soon be prepared to pay a higher earnings multiple for the shares.

As broker Canaccord says, 'The trend for increased allocations to specialist, alternative asset managers look set to continue apace and perhaps none are better positioned than those focused on ESG principles. This sits at the core of Gresham House' strategy, and we view it as a core holding in the sector.'

Disclaimer: The author owns shares in Gresham House Energy Storage Fund



ASML

(ASML:AMS) €342.9

Gain to date: 29.6%

Original entry point:

Buy at €264.6, 23 April 2020

THE GLOBAL microchip industry seems to be in rude health judging by ASML's second quarter figures on 15 July. There was certainly no hint of any threat of orders being delayed this year because of the pandemic as net profit rose sharply, driven by higher sales and improving margins.

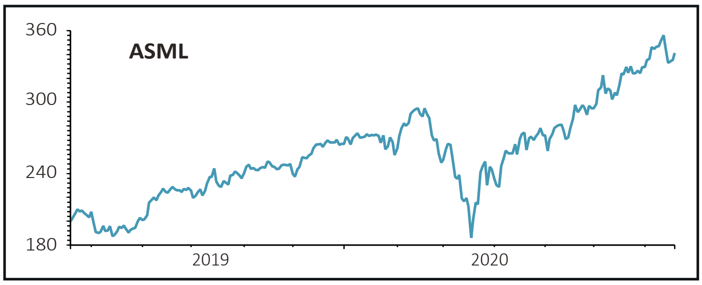
ASML, the Dutch supplier of crucial equipment to semiconductor giants like Samsung, TSMC and Nvidia, beat analyst expectations for the quarter and insisted 2020 will be a growth year.

Analysts are anticipating 13% sales growth in 2020, impressive given the disruption of Covid-19 to business globally, and Liberum is now forecasting an acceleration to 19% in 2021.

ASML made a quarterly net profit of €751 million compared with €476 million in the equivalent 2019 quarter, on net sales up from €2.57 billion to €3.33 billion.

That the stock dipped 3.5% on the day says more about the sharp rally to more than €340 since we flagged the discounted buying opportunity three months ago.

'We presently forecast gross margins to rise to 51.1% and 53% in 2021 and 2022, from an estimated 47.8% in 2020,' said Liberum analyst Janardan Menon, largely thanks to new platforms on ASML's core extreme ultraviolet lithography and other technology ranges.



SHARES SAYS: ↗

It has already hit the €340 target we initially flagged but you should continue buying this fine company.

GAMMA COMMUNICATIONS

(GAMA:AIM) £15.35

Gain to date: 2.7%

Original entry point:

Buy at £14.95, 9 July 2020

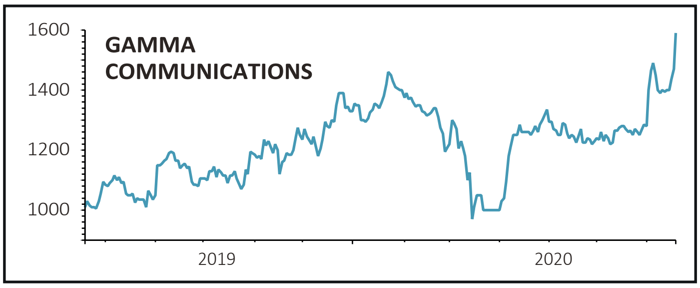
TELLING THE market that you expect to beat full-year forecasts on earnings and revenue because your core business has performed so well is a pretty good way to impress investors, and **Gamma Communications (GAMA:AIM)** has done just that.

Consensus for this year had been pitched at £71.8 million of earnings before interest, tax, depreciation and amortisation (EBITDA) on £373 million revenue, but Peel Hunt is among those to raise estimates to £73.5 million and £383.4 million respectively following new guidance from Gamma.

Importantly for the longer-term, the UCaaS business (unified communications as a service) has also continued its European acquisition spree, adding to its footprint in the Netherlands with GnTel, a modest £7.4 million cash bolt-on.

Clearly the work from home theme has been very good for Gamma but with staff slowly returning to offices, it will be worth watching how that might affect the use of products we relied on under lockdown such as Microsoft Teams.

Centralised working could see usage decline, although as Peel Hunt says, this might just as easily make businesses realise that these tools are 'more important than ever'.



SHARES SAYS: ↗

A good start for a very recent addition to our list of top ideas. Keep buying for the long-term.

BEGBIES TRAYNOR
(BEG:AIM) 99p

Gain to date: 12.5%
Original entry point:
Buy at 88p, 19 December 2019

INSOLVENCY AND business recovery firm **Begbies Traynor (BEG:AIM)** pleased the market on 21 July with an 8% increase in the dividend after posting in-line results for the year to 30 April.

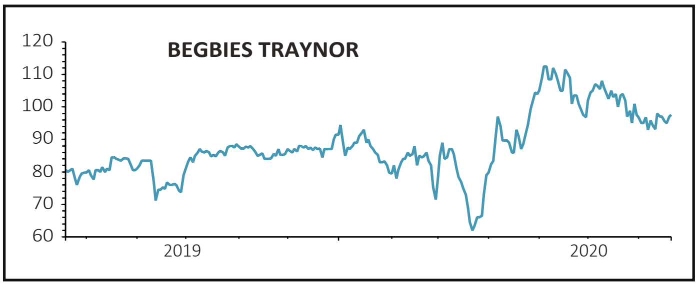
Revenues for the period were £70.5 million, an increase of 17%, of which 5% was due to organic growth and 12% came from acquisitions.

Adjusted pre-tax profits were up 31% to £9.2 million, exactly in line with guidance despite a minor hit from the pandemic.

Its business recovery and financial advisory operations continued to win and progress new cases, and work has increased this quarter although the firm expects its current year results to be weighted towards the second half as the Government removes its support measures and companies begin to struggle.

While lockdown put the brakes on commercial property activity and the sale of businesses, transaction volumes have picked up this quarter but as with recovery and advisory the firm expects insolvency-focused areas to see more work in the second half.

Financially the firm is in good shape thanks to improved cash generation, and following the July 2019 capital raise the firm has almost zero net debt.



SHARES SAYS:
Keep buying. Results will improve as the economy slows making Begbies a good portfolio hedge.

20 small caps where analysts are upgrading earnings forecasts

The act of raising earnings estimates can often lead to a higher share price

Small caps may have fallen further than large caps in March, with the FTSE Small Cap index losing 40% in value from the highs compared with 35% for the FTSE 350. But contrary to popular perception they have recouped more of the losses and are down 15% year-to-date compared with 18% for the FTSE 350.

Some small caps are operating well in the current environment prompting analysts to increase their earnings estimates while most of the market is seeing downgrades. *Shares* reveals a range of stocks with recent upgrades.

EARNINGS ESTIMATES

Analysts' estimates are collected by Refinitiv to produce a consensus estimate, based on an equal weighted average of all the forecasts.

Economist Burton Fabricand is thought to be first person to write about the link between earnings estimates and subsequent share performance. He showed that portfolios of stocks based on the largest estimate revisions went on to significantly beat the average market return over a three-month period.

GOOD NEWS TRAVELS SLOWLY

The root cause is linked to how

SMALL CAPS WITH POSITIVE EARNINGS UPGRADES

Name	EPS Upgrades over last month FY1 %	EPS Upgrades over last month FY2 %
RM	93.8	6.2
Luceco	63.0	26.7
Gear4music	47.8	28.4
Hummingbird Resources	43.3	68.3
Filtronic	40.3	32.8
888	34.8	17.4
Asa International	29.3	8.3
Robinson	21.7	3.6
Sigma Capital	21.6	7.4
Polar Capital	19.3	19.3
Boku	14.3	12.1
Connect	13.2	10.7
NCC	13.0	12.7
Etalon	12.9	5.6
Trackwise Designs	11.8	22.0
Centralnic	10.2	21.8
Pan African Resources	10.0	7.0
Caretech	6.3	6.4
Next Fifteen Communications	4.7	3.1
Anglo Asian Mining	3.5	16.1

Source: Stockopedia. Consensus forecasts. Data as of 14 July investors perceive risk, with the typical investor being risk averse. They feel roughly twice as disappointed by negative news as they feel excited by positive news. Consequently, bad news travels quickly and good news travels slowly.

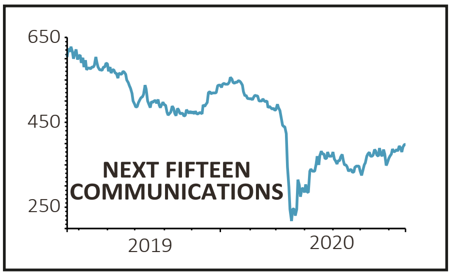
This bias means downward revisions are quickly priced in by investors while they tend to underreact and take a wait-and-see attitude to upward revisions based on good news.

In effect when analysts downgrade earnings investors assume the worst without waiting for further evidence to appear, but in the case of upgrades they tend to question the sustainability of the improvement. This leaves scope for the share price to catch up with the news.

Shares analysed small cap stocks with the biggest upgrades in the UK market over the last month and we now look at what's behind the upgrades for a selection of these names.

NEXT FIFTEEN COMMUNICATIONS (NFC:AIM)

Price: 398p
Market Cap: £354 million



A marketing company focused on the technology space, **Next Fifteen Communications (NFC:AIM)** is well positioned longer term given growth trends in the sector have been accelerated by the pandemic.

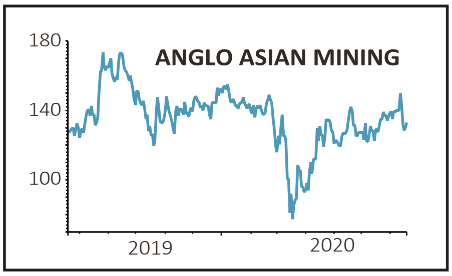
The company is demonstrating resilience in the short term, with a trading update on 25 June materially better than most analysts had feared. The company guided for modest sales growth in the six months to 31 July – causing Berenberg to upgrade its earnings forecasts for the January 2021 and January 2022 financial years by 11% and 3% respectively.

Based on these increased forecasts and a share price of 400p, Next Fifteen trades on a price-to-earnings ratio of 10.5.

The group's services span digital content, public relations, marketing software, market research, public affairs and policy communications. As well as serving the tech industry it has significant technological capability itself. The company also has a strong balance sheet – net debt is forecast by Numis to total £5.8m at the end of the current financial year.

ANGLO ASIAN MINING (AAZ:AIM)

Price: 133.5p
Market Cap: £147 million



Anglo Asian Mining (AAZ:AIM) produces gold, silver and copper from four mines in Azerbaijan. It has invested in processing facilities so it can produce gold doré bars and copper concentrate.

It pays dividends, has a net cash position and some of the lowest operating costs in the gold mining industry globally. In recent years the highly cash generative business has made a bigger push with exploration in the hope of finding more resources on its licence area and extending the life of its mines.

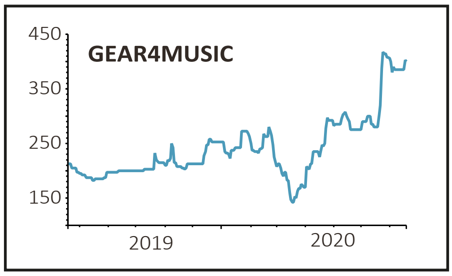
A recent quarterly update slightly disappointed the market because year-on-year gold production rates were lower, and it has suffered some operational inefficiencies linked to coronavirus-related disruption.

However, broker SP Angel increased its earnings forecasts for the company after lifting its gold and copper price forecasts. Forthcoming news to watch includes an exploration update this month and a new mineral resources and reserves statement later in the quarter.

It has also proposed a joint venture in Ireland to explore for gold.

GEAR4MUSIC (G4M:AIM)

Price: 402.5p
Market cap: £83 million



Shares in online musical instruments retailer **Gear4music (G4M:AIM)** have rocketed from 142.5p in mid-March to 402.5p, with analysts upgrading estimates off the back of positive trading updates.

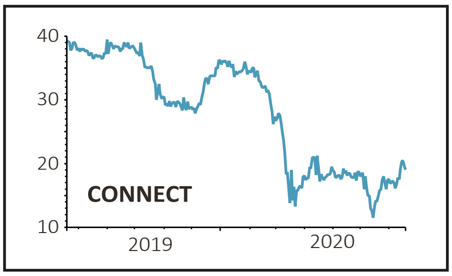
Cooped up indoors due to the Covid-19 lockdown, consumers have looked to occupy their time by playing pianos and jamming on guitars, while Gear4music has also seen a boom in sales of specialist podcast microphones, as chief executive Andrew Wass relayed to the *Financial Times*.

Following positive updates in April, York-headquartered Gear4music reported on 23 June a 'strong return to profitability' for the year to March 2020, with revenues rising 9% to £120 million. The online specialist posted record profits thanks to strong gross margin gains and cost efficiencies.

N+1 Singer analyst Matthew McEachran also highlighted a welcome pivot from cash burn to cash generation and upgraded his March 2021 earnings estimates given the positive momentum in the business, with Wass witnessing an 'exceptional and sustained increase in demand' for Gear4music's products in the first quarter.

CONNECT (CNCT)

Price: 19.6p
Market Cap: £51 million



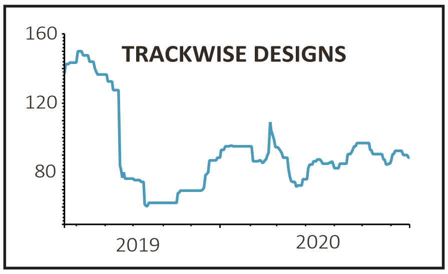
Connect Group (CNCT) operates Smiths News, one of the UK's largest newspaper and magazine distribution businesses with around 55% market share. The stock responded positively to its latest trading update (14 Jul), rising by 9.4%, taking the shares up 15% over the last three months and prompting analysts to upgrade their profit estimates.

Releasing data for the 44 weeks to 4 July, the group said it had seen a marked increase in retail store outlets reopening since lockdown rules were relaxed such that only 5% of its customers' stores, predominantly in travel and leisure locations, remained closed.

As a result of better than anticipated trading and operational cost reductions in excess of £5 million, Connect expects full year continuing adjusted pre-tax profit of between £26 million and £28 million for the period to 29 August. The middle of the range is 16% higher than current consensus analysts' expectations implying more upgrades to come.

TRACKWISE DESIGNS (TWD:AIM)

Price: 90p
Market cap: £20 million



Trackwise Designs' (TWD:AIM) printed circuit technology-based products are used globally in RF/antenna and lightweight interconnect products across different sectors and applications.

Full-year results for 2019 published on 23 June 2020 were in line with market forecasts and trading this year has remained resilient despite some short-term impact on the timing of revenue and order intake.

It has been shifting the sales mix with a reduction in low-margin Chinese RF sales and a greater level of Improved Harness Technology (IHT) sales, thereby boosting gross margins. Progress had been made in widening its IHT customer base beyond aerospace to electric vehicles and medical appliances.

Broker FinnCap pushed through a small upgrade to 2020 pre-tax profit forecasts following the 2019 results, which together with a £0.2 million tax credit resulted in a 27% boost to its earnings per share estimates. Stockbroker Arden, which also publishes forecasts on the stock, didn't change its 2020 estimate.

For 2021, FinnCap says a higher depreciation charge marginally lowered its adjusted pre-tax profit forecast, but a review of the R&D tax credit situation prompted a switch from a tax charge to a £0.3m tax credit, resulting in a boost to adjusted EPS of 22% to 7.2p. Arden pushed through a near-20% upgrade for its 2021 estimate to 7.3p.

By **The Shares Team**

THE REASONS WHY INFLATION COULD MAKE A COMEBACK

Policies stimulating the economy could trigger a huge spending spree and push up the cost of living

In its latest report on 14 July the UK's Office for Budget Responsibility (OBR) said the country is on track for the largest decline in gross domestic product (GDP) for 300 years with a 2020 contraction of 12.7%. GDP is a measure of the total value of goods and services in the economy.

It says lower output and rising costs will push national debt as a proportion of GDP above 100% and is expected to remain elevated at unprecedented peacetime levels.

The UK is not alone with the International Monetary Fund (IMF) forecasting gross public debt for advanced countries rising above 130% of GDP, one of the highest levels since the Second World War.

With such a negative backdrop and interest rates near zero, could future inflation be higher than expected?

A NON-CONSENSUAL VIEW

One person who thinks so is US economist Jeremy Siegel, professor of finance at the Wharton School of the University of Pennsylvania and most famous for his 1994 book *Stocks for the Long Run*.

While most observers see the Federal Reserve's stimulus measures as a continuation of the quantitative easing (QE) policies that started after the financial crisis of 2008, Siegel has a different take. He puts this down to the influence of Milton Friedman on his thinking.

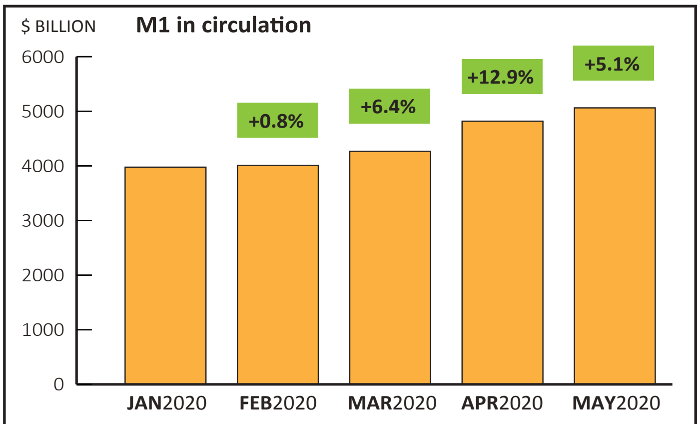
Friedman, who received a Nobel Memorial Prize in Economic Sciences in 1976, is known for the theory that too much money chasing too few goods causes inflation.

Siegel argues that the reason QE didn't spark inflation after the 2008 financial crisis is because very little of the stimulus ended up in the real economy. US banks were so undercapitalised that they used the money to shore up their balance sheets.

Some economists believed the so-called 'transfer mechanism' had been broken. This is the process by which general economic conditions are affected by monetary policies. Most of the money created ended up as excess bank reserves rather than stimulating lending.

IT REALLY COULD BE DIFFERENT THIS TIME

This time around QE has found its way directly into the economy because of the way the US government has orchestrated its support programmes. The Cares Act is the largest rescue legislation in American history with a $2 trillion price tag, ensuring every working American



Source: US Federal Reserve Data
M1 is a narrow measure of physical cash, checking and instant deposit accounts

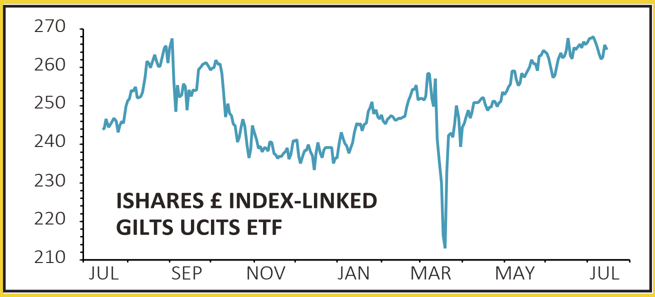
PROTECTING YOURSELF FROM INFLATION

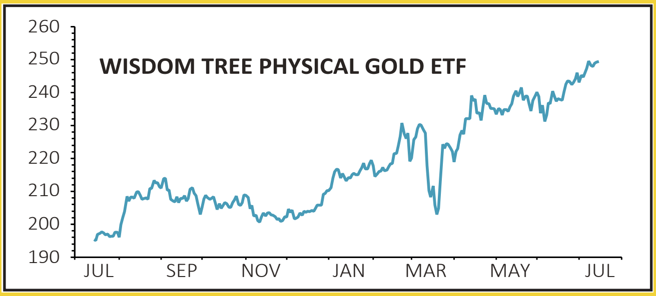
UK INFLATION-LINKED bonds can increase in value during inflationary periods. Although the underlying market isn't very deep, as an example the **iShares £ Index-Linked Gilts UCITS ETF GBP (INXG)** has almost £1 billion of assets and tracks the index-linked market for a low cost of 0.1%.

The product has delivered an annualised return of 8.4% over the last five years, according to Morningstar.

For investors looking for a more direct hedge, gold will generally perform well during periods of rising inflation. And for those looking for a sustainability angle, the London Bullion Markets Association (LBMA) has produced delivery criteria relating to the provenance and responsible sourcing of gold.

One example of a gold-related investment is **Wisdom Tree Physical Gold ETF (PHAU)** which is backed by physical allocated gold held by HSBC and conforms 100% to LBMA's criteria. The ETF has delivered a 9.1% annualised return over the last five years and has a 0.39% annual cost.





received $1,200 directly into their bank accounts.

This was followed by a $500 billion package for small businesses and the Heroes Act which will cost another $3 trillion if passed by the Senate. The Paycheck Protection Programme spun out of the Cares Act provides loans for businesses to keep paying their employees. The loans don't need to be paid back if used for payrolls and general expenses.

This means the pandemic-induced stimulus has achieved something that trillions of dollars of quantitative easing never did in 2008/9.

And it's showing up in the numbers. According to Siegel the supply of notes and coins sloshing around the economy, measured as M1, increased by nearly 25% between March and May. M1 is a measure of all the cash in deposits and checking accounts.

On 16 June, US retail sales for May jumped the most on record, by a staggering 17.7%, having sunk by 14.7% in April. This was revised upwards to 18.2% when June's numbers were released on 16 July, which showed sales increased 7.5% from May, exceeding forecasts.

Siegel's view is that if the policies are effective at stimulating the economy it may well result in a huge spending spree in 2021 which will put pressure on inflation. In his mind, after 40 years of a roaring bull market, it is the bond holders who will pay for Covid-19. Inflation makes interest rates go up, in turn making bond values go down.

LESS EFFICIENT SUPPLY CHAINS

One lesson that companies have learned from the pandemic is not to rely on so few supply chains which means future production will become less efficient but more reliable. This will also put some pressure on prices.

Siegel isn't expecting runaway inflation, but even a tick up to the 3% level in the US over the next three years will be a wake-up call for the holders of government debt.

Economists Charles Goodhart and Manoj Pradhan say there is a risk of inflation from excess demand if stimulus is not withdrawn sufficiently as the economy recovers. Milton Friedman once said, 'Nothing is as permanent as a temporary government program.'

By **Martin Gamble** Senior Reporter

TECH STOCK MANIA

Everyone wants a slice of the digital world

By **Steven Frazer**
News Editor

Investors have been piling into technology stocks this year in volumes not seen since the dotcom bubble of 1999/2000. Things did not work out very well for investors back then, so it is quite reasonable to ponder whether we are headed for a similarly disastrous outcome.

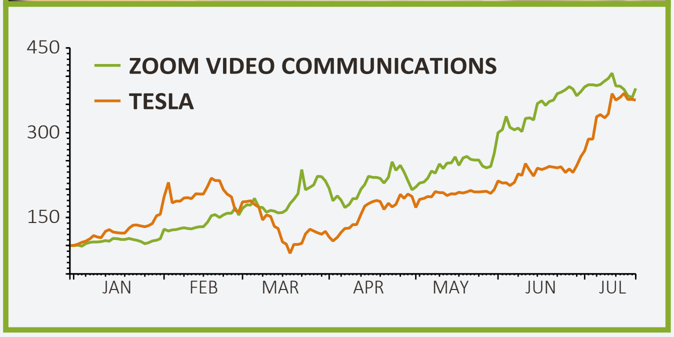
Managing to limit losses during any stock market downswing while staying keyed in to important growth opportunities is never an easy task but, in this feature, we try to help investors come to their own rational conclusions about how they can manage portfolios and their exposure to tech themes through the coming months.

WHY EVERYONE HAS BEEN BUYING TECH

The enthusiasm for tech stocks has intensified this year, getting a massive boost during Covid-19 lockdown. This was an extraordinary time for us all but for many ordinary investors, this was the first time they had used video calling to stay in touch with family and friends, shopped for groceries and other necessities online or had to run work meetings on their smartphone.

Recent data shows we have vaulted five years forward in consumer and business digital adoption in a matter of around eight weeks, says a report by business consultancy McKinsey.

The share price rallies in Zoom Video, Microsoft and **Ocado (OCDO)** are good examples of how changes to our old routines have impacted stocks.



The new way of life involving video conferencing, work collaboration tools and online grocery ordering, among other factors, has sparked huge investor demand for many popular tech stocks reckoned to have prospered from lockdown.

'2020 has so far proven to be the latest episode in a long period of technology outperformance,' says William Heathcoat Amory, an analyst at investment trust researcher Kepler.

Since the start of 2020, Zoom Video's share price has rattled more than 260% higher. Tesla has jumped almost as much and now carries a $278 billion market value, the sixth biggest on Nasdaq. You would have to look in the healthcare sector to find a stock that's done better, such as Covid-19 vaccine hopeful Moderna which has jumped 385% this year.

Netflix is up nearly 50%, Microsoft has enjoyed a near-30% rise partly thanks to its Teams online meetings and collaboration tool. Even the previously lacklustre share price of workplace collaboration platform Slack has sprung to life this year, still up 38% in 2020 even after falling 20% from year highs in June.

IS TECH OVERHEATING?

This surge in demand has sent technology indices to soaring levels despite the obvious challenges to growth that the pandemic has created.

NASDAQ SELL-OFF SINCE 10 JULY*

Zoom Video	-10.6%
Netflix	-10.2%
Amazon	-7.4%
Adobe	-7.3%
Baidu	-7.2%
Mercadolibre	-6.9%
Workday	-6.7%
DocuSign	-6.5%
Analog Devices	-6.2%
Intuit	-5.9%

Source: Refinitiv *Nasdaq 100. Data as of 17 July 2020

Technology sector revenue growth is forecast to decline by 1.2% in 2020, says Polar Capital fund manager Ben Rogoff, but that compares to an anticipated 11.3% slump for the broader market.

'The combination of positive sector returns and negative earnings revisions saw the technology sector continue to re-rate over the past year leaving it trading on a forward price-to-earnings (PE) ratio of 22.5, compared to 18.9 at the previous year end (30 April),' comments Rogoff, who runs **Polar Capital Global Technology Fund (B42W4J8)** and **Polar Capital Technology Trust (PCT)**. His reference point for the technology sector is the Dow Jones World Technology index.

Investors have gravitated towards stocks able to deliver growth against a more uncertain economic backdrop and to sectors perceived to win (or lose less) from Covid-19 disruption, according to the fund manager.

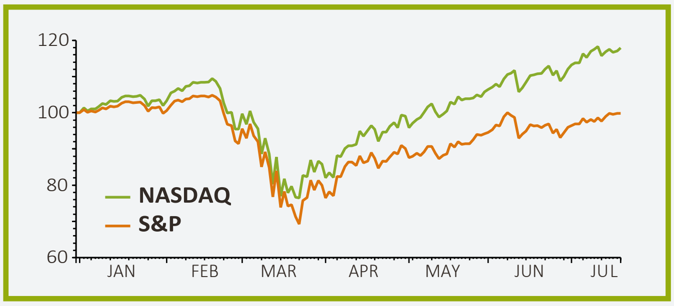
By his own admission, this represents one of the highest forward multiples enjoyed by the sector since 2005 and is well ahead of five-year (17.8) and 10-year (15.4) averages.

RECORD NASDAQ

Seen by many as the benchmark for technology stocks, the US-based Nasdaq Composite has been on an almighty run since the global market sell-off in February and March as the widespread impact of the Covid-19 virus struck home.

Since bottoming out at 6,860.67 on 23 March the index has soared 53%, recovering all of its pandemic losses by early June, and setting a new record of 10,767 on 20 July.

That has pushed the Nasdaq Composite's price-to-earnings multiple to 31.5 according to Refinitiv data, and the Nasdaq 100 (the biggest 100 Nasdaq stocks) to a PE of 34.3. This time last year the equivalent Nasdaq 100 PE was 25, according to data from US research house Birinyi Associates.



Sceptics have been eagerly waiting for what they claim will be the bursting of a bubble inflated by the irrational exuberance of investors.

'This is nuts,' proclaimed Lance Roberts, chief portfolio strategist for RIA Advisors in the US in an 11 July client newsletter. 'For the second time in a single year, we have begun the profit-taking process within our most profitable stocks,' he added, referencing many big tech names plus several tech-themed ETFs.

Others take a more sanguine view. 'We are firm believers in learning the lessons from history but calling the present day a tech bubble is taking the wrong leaf out of the history book,' said Stephen Yiu, lead manager of the £440 million **Blue Whale Growth Fund (BD6PG78)**.

He draws on adoption curve parallels of electricity, which was not embraced overnight but eventually became widespread across all industries. This transition is being played out in internet-based technologies, like cloud computing and digital payments, which have matured into enterprise-grade tools to help businesses with digital transformation, according to Yiu.

> ***"Calling the present day a tech bubble is taking the wrong leaf out of the history book"***
>
> **Stephen Yiu, Blue Whale**

Still, tech bears who study charts talk about the 2% Nasdaq 'reversal' on 13 July, when having opened more than 1% higher, changed tack mid-session to fall 2.1% by the close of the trading day. As it stands, Nasdaq has shown little real sign of meltdown.

NASDAQ 100 TOP PERFORMING STOCKS 2020

Company	Year to date
Moderna	385.0%
Zoom Video	262.0%
Tesla	259.0%
DocuSign	165.0%
DexCom	94.0%
JD.Com	76.4%
NVIDIA	73.4%
Regeneration Pharmaceuticals	71.5%
Mercadolibre	68.7%
eBay	61.0%

Source: Refinitiv. Data to 17 July

TECH VALUATIONS

Given the strength of the US market overall, the tech premium is not really that wide. 'The sector's relative rating represents only a circa 5% premium to the broader market,' calculates Rogoff.

'In early February, this premium exceeded 20% but has been ameliorated by subsequent earnings revisions that have been less negative than the broader market,' he says.

Today's modest premium looks well supported, says the fund manager, by the tech sector's relative earnings profile, profitability (net margins that in the first quarter of 2020 were twice that of the S&P at 20.8% and 9.4% respectively) and balance sheet strength. 'As in previous years, the technology sector is unique in boasting net cash.'

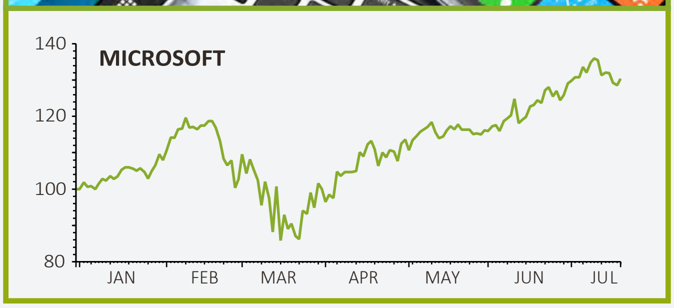
IBM is a mature company past its real growth phase

The technology sector, like any other, has its mix of weak and strong. By its nature it tends to see lots of young start-up businesses yet to prove their products or models, others that have built scale but have yet to see that convert to profits, or mature technology businesses that have moved past their real growth phase, such as IBM, Dell and Oracle.

But within the sector are stocks that have proven their growth and profit credentials over the years, and have continued to deliver strong returns for investors, such as Microsoft, Amazon and Alphabet. They are essentially digital, flexible, platform businesses that can control costs, maintain service standards and still fulfil customer needs even during these difficult times.

EARNING THEIR RETURNS

'Tech businesses do not automatically generate good returns: they have to earn it,' says Blue Whale's Stephen Yiu. 'Most of the technology companies in our portfolio have done so. Some, like Microsoft, have even seen upward earnings revisions despite the economic impact from Covid-19 and lockdown. On the other hand, there are plenty of household tech names that have not done as well: IBM, **Sage (SGE)**, Oracle and Hewlett Packard to name a few.'



The technology sector contains a relatively wide range of different companies, all loosely defined as being technology businesses.

It's little wonder that businesses like these are being chased by an increasingly deep pool of investors. 'Over the past decade, technology-related companies have tended to perform like consumer staples or defensives on the downside, and like high-growth discretionary stocks on the upside: an ideal combination from the investor's point of view,' said Kepler's William Heathcoat Amory.

As a result, the indices, and fund managers' portfolios, are increasingly correlated to big tech.

It's important to understand that Microsoft, Apple, Amazon, Alphabet, Facebook, Netflix and many other stocks may not charge on forever, like tech goliaths of the past (IBM, Oracle and Yahoo, for example). Each may be forced to pass the torch to new companies with new ideas and technologies.

As Polar Capital's Ben Rogoff says, investors need to ask themselves 'what do I want to hold' and look beyond short-term market caprice.

FUNDS TO CONSIDER

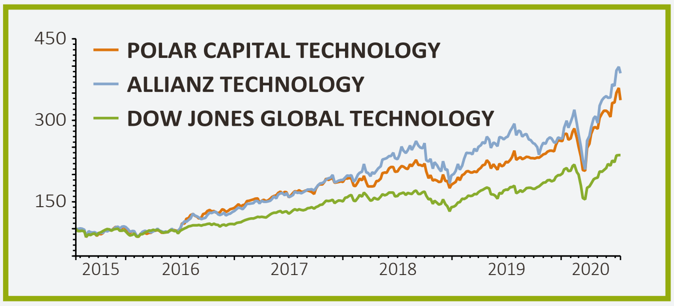
Staying on the right side of this creative destruction cycle may be beyond the average DIY investor. But they can build a portfolio of funds and investment trusts to deal with the shift in companies being at the top of their game and others coming in to replace them.

There are some very talented fund managers in the tech space and paying them an annual management fee could be a small price if it means benefiting from their stock picking skills. You are effectively outsourcing all the hard work, in-depth research and analysis, meaning you get exposure while also being able to get on with your life.

Investing in collectives also introduces more diversification into investing without reducing the potential for growth.

'**Allianz Technology Trust (ATT)** and Polar Capital Technology Trust, for instance, are both run by tech specialist managers,' says Kepler's Heathcoat Amory.

The Allianz trust differs from Polar's product by having a more concentrated portfolio and at times greater exposure to mid-caps. 'This combination of features means that Allianz Technology can be more volatile and deviate from the benchmark to a greater extent, from time to time,' says the Kepler analyst.



Nonetheless, over the last five years, these two aspects of Allianz Technology have paid off for its shareholders, having outperformed Polar Capital Technology by a total of 15% in net asset value (NAV) terms, according to Kepler's calculations.

There are good reasons why the quality characteristics which technology stocks display give them the potential to outperform for years to come. But nothing lasts forever.

We would not bet against the technology sector performing strongly in absolute terms over the medium term, but it might be that sector leadership could be handed over elsewhere.

Our view is that investors should stay with the tech sector but appreciate it won't always enjoy such a rapid rally as it is now experiencing.

TECH FUNDS TO BUY

The accompanying table shows the best performing funds tech funds over the last five years, on an annualised total return basis, which should give investors a good starting point in their search for ideas.

Three funds catch our eye and are good way to get exposure to the sector. First is Polar Capital Global Technology Fund where lead manager Ben Rogoff has proven himself as a very smart reader of the tech space, mixing exciting mid-cap growth potential with many of the sector's goliaths.

He's been supportive of trends like internet shopping and digital payments for years, both really shining through during Covid-19, while he keeps the fund as flexible as possible to take advantage of emerging opportunities, both in and outside the US.

With a consistent strong track record, Rogoff's regular investment newsletters are among the most valuable investor communications in the sector.

Herald Worldwide Technology Fund (B51DS86) blends the best of mega-cap tech with some of the great little tech companies in the UK and elsewhere by retaining a stake (currently 3.2% of its funds) in the **Herald Investment Trust (HRI)**, both run by investing grandee Katie Potts.

That means companies like Amazon, Apple and Advanced Micro Devices sit side by side with small caps like fraud prevention and ID management software firm **GB Group (GBG:AIM)**.

Legal & General Global Technology Index Trust (B0CNH16) is arguably a lower risk way into the tech world since it acts as a virtual tracker. It manages its portfolio to largely match the tech niche among the FTSE World Index, balancing weightings generally to constituent market caps. Key names in the fund include Facebook, Apple, Alphabet and Samsung, the South Korean electronics and tech giant.

DISCLAIMER – The author owns shares in Polar Capital Technology Trust and Allianz Technology Trust

TOP 10 TECH FUNDS

Fund	5 yr annualised return
BlackRock World Technology Fund	31.7%
Polar Capital Global Technology Fund	29.5%
JPMorgan US Technology Fund	28.7%
Fidelity Global Technology Fund	26.3%
Legal & General Global Technology Index Trust	25.7%
AXA Framlington Global Technology Fund	25.7%
Herald Worldwide Technology Fund	24.9%
Janus Henderson Global Technology Leaders Fund	24.0%
Aberdeen Standard SICAV I Technology Equity Fund	20.5%
JPMorgan Europe Dynamic Technologies Fund	19.2%

Source: Morningstar

RUSS MOULD
AJ Bell Investment Director

The 20 names which hold the key to UK dividends

The yield on the FTSE 100 could be attractive at face value but that's not the whole story

An aggregation of analysts' forecast for all of the FTSE 100's members suggests that the index offers a dividend yield of 3.6% for 2020 and 4.4% for 2021.

Those figures may look alluring to income-hunters, especially as the Bank of England base rate looks firmly anchored at 0.1%, and the next move could even be down into negative territory, if some of the most recent rhetoric from Governor Andrew Bailey is taken at face value.

However, we began the year with the same analysts' forecasts putting the FTSE 100 on a yield of 4.8% for 2020. Since then, dividend forecasts have been cut by a third and the index has fallen by a sixth, to add the insult of capital losses to the injury caused by lost income.

Before making any investment case for the UK on the basis of its yield investors must look at the source of the dividends and whether the forecasts are reliable.

THE NAMES THAT MATTER

The first thing to note for anyone buying UK equities for their income, either through an actively-managed or a passive fund, or via individual companies, is that just 10 stocks are forecast to generate 55% of the FTSE 100's forecast £62 billion in dividend payments in 2020. Just 20 names are expected to provide 74% of the total.

Any investor needs to know these 20 names and have a view on their prospects, so they can assess whether the dividend forecasts are right or not, especially with **BP (BP.)** right at the top of the list – the oil major is seen by many as primed to follow that of **Royal Dutch Shell (RSDB)** and cut dividends.

This list inevitably shapes the sector mix of the UK's dividend payments. Just five sectors are expected to generate three quarters of 2020's £62 billion in shareholder distributions – consumer staples, oils, financials, miners and healthcare – not least because just three (industrials, healthcare and utilities) are expected to grow their

TWENTY STOCKS WILL DICTATE THE FATE OF THOSE SEEKING INCOME FROM UK EQUITIES

	2020 E Dividend (£ million)	2020 E Dividend yield (%)	2020 E Dividend cover
BP	6,702	10.4%	0.04
British American Tobacco	4,969	8.0%	1.53
Royal Dutch Shell	4,030	4.1%	0.57
GlaxoSmithKline	4,014	4.9%	1.46
Rio Tinto	3,354	5.4%	1.55
AstraZeneca	2,989	2.4%	1.42
Vodafone	2,181	6.3%	0.88
HSBC	2,049	2.7%	2.21
BHP Group	2,018	5.3%	1.54
Top 10:	32,304	55% of total	
Unilever	1,796	3.5%	1.44
National Grid	1,751	5.6%	1.19
Diageo	1,598	2.4%	1.60
Imperial Brands	1,303	9.8%	1.86
Reckitt Benckiser	1,251	2.2%	1.74
Aviva	1,251	10.9%	1.52
Legal and General	1,079	8.0%	1.65
RELX	902	2.6%	1.88
Glencore	887	3.6%	0.59
Prudential	879	2.8%	3.77
SSE	832	5.6%	1.12
Top 20:	45,834	74% of total	

Source: AJ Bell, Sharecast, consensus analysts' forecasts

payouts this year.

Two of those will only just manage it, if the analysts are right and the industrials rely heavily on a swift return to the dividend's prior trajectory at **BAE Systems (BA.)** and a trio of packagers, **Smurfit Kappa (SKG)**, **DS Smith (SMDS)** and **Mondi (MNDI)**. Rarely did so much, beyond internet shopping, rest upon containerboard.

However, bad news about 2020's dividend payments hardly represents a surprise after three months of headlines about cuts, suspensions, deferrals and outright cancellations.

The fact that 49 FTSE 100 firms have not cut but aggregate estimates for the total payout have plummeted only serves to highlight the importance of knowing the mix of payments by stock and sector.

BOUNCING BACK

This takes us to the hoped-for recovery in 2021, when analysts currently predict total FTSE 100 payments will rebound to £75.5 billion, pretty much where they were in 2019.

The sector mix is particularly telling when it comes to the source of the anticipated increase. Two thirds of the forecast increase comes from just two sectors – financials and consumer discretionary, so in essence banks, retailers and insurers. Industrials also crop up again, but the rest offer little or nothing.

This could be a source of an upside surprise, such as if you think inflation is coming and oil and metal prices are primed to rise strongly as a result of a robust economic upturn.

Equally, it may be a source of concern, given the pressure the 'Big Five' FTSE 100 banks face from record-low interest rates and quantitative easing, which are squeezing net interest margins, not to mention rising loan impairments, political pressure to go out and lend, the dangers of a slow economic recovery and ongoing regulatory scrutiny.

That said, the banks entered 2020 with strong capital ratios and they could return to paying dividends quickly if the recessionary storm passes in short order.

In sum, the UK does on paper offer an enticing yield for 2021. But this assumes that dividend growth forecasts are correct and that key sectors like banks and retailers do the business. Just as is the case with the earnings mix, there looks to be plenty of risk, as well as opportunity.

This may be why investors are currently demanding that juicy-looking yield to compensate themselves for the possible dangers associated with holding FTSE 100 stocks.

FINANCIALS AND CONSUMER DISCRETIONARY DOMINATE THE FORECASTS FOR DIVIDEND PAYMENT RECOVERY IN 2021

2021E Percentage of dividends	
Financials	22%
Consumer Staples	16%
Oil & Gas	16%
Mining	11%
Health Care	10%
Industrial goods & services	8%
Consumer Discretionary	7%
Utilities	4%
Telecoms	4%
Real estate	1%
Technology	1%

2021E Percentage of dividend growth	
Financials	48%
Consumer Discretionary	17%
Industrial goods & services	11%
Oil & Gas	8%
Consumer Staples	7%
Telecoms	5%
Real estate	1%
Mining	1%
Technology	1%
Health Care	0%
Utilities	0%

Source: AJ Bell, Sharecast, consensus analysts' forecasts

Lesser-known quality funds giving Fundsmith a run for its money

While Terry Smith has richly rewarded investors, his fund isn't the only product in town with a quality tilt

With the risk of a second coronavirus wave weighing on sentiment and the worst of the economic fallout from the pandemic to follow, risk-averse portfolio builders should swerve the trash and instead put cash to work in quality stocks, or in funds with a quality tilt to them.

There are no guarantees, but we think shares or funds that are quality through and through will provide generous returns over the long term. We'll look at some of the lesser-known quality funds in this article.

QUALITY QUEST

High quality companies have something special about them. They should be consistently profitable, growing their earnings and typically have fortress balance sheets to help them fund their growth and navigate unexpectedly tough times.

When people talk about funds that have a quality tilt, most reference the likes of Terry Smith's **Fundsmith Equity (B41YBW7)** and products from the Lindsell Train stable including **Finsbury Growth & Income Trust (FGT)** and **Lindsell Train Global Equity (B644PG0)**.

EXAMPLES OF FUNDS WITH A QUALITY TILT

FUND	5yr	3yr	1yr
Guinness Global Innovators	104.3%	41.4%	21.8%
TM Cerno Global Leaders	n/a	n/a	18.0%
LF Blue Whale Growth	n/a	n/a	13.1%
CFP SDL Free Spirit	n/a	36.9%	8.4%
Fundsmith Equity	146.4%	52.0%	7.5%
DMS Latitude Horizon	n/a	n/a	0.5%
CFP SDL UK Buffettology	76.6%	32.7%	-1.3%
Lindsell Train Global Equity	116.2%	51.2%	-2.0%
GLOBAL BENCHMARK			
MSCI World	76.8%	29.8%	5.3%

Source: FeFundinfo, as of 17 July 2020. Total return

While each of these funds has its own merits, there are many other quality funds worth researching. For instance, the **Blue Whale Growth Fund (BD6PG56)** is not that well-known having only launched three years ago, yet it has become one of the best performing funds in its category.

Tech-savvy fund manager Stephen Yiu runs a highly concentrated, high conviction portfolio and aims to buy and hold high quality businesses at an attractive price. The Blue Whale portfolio includes Adobe, Amazon, Mastercard,

The Blue Whale portfolio includes Adobe, Amazon, Mastercard, Microsoft and PayPal

Microsoft and PayPal. Assets under management have grown from £25 million at launch in 2017 to £431.5 million through a mixture of new inflows and share price appreciation.

DIFFERENT APPROACH

Approaching its fourth anniversary, the £165 million **Latitude Horizon Fund (BDC7CZ8)** is managed by Freddie Lait who believes that quality cyclical stocks are 'one of the most attractive areas of the stock market today'. His portfolio has investments in the likes of investment bank JPMorgan and industrial gas concern Air Liquide.

Lait looks to deliver long-term capital growth through a concentrated portfolio of best-in-class operators, while also lowering equity risk and enhancing returns through a selection of short-term treasuries, gold and inflation-linked bonds.

In his June factsheet, Lait warned that investors who own quality stocks in exclusivity now face heightened risk due to the prices they are paying for the highly certain attributes such companies boast.

HAVE A BIT OF BUFFETT

Two funds run according to the principles of Warren Buffett, one of the world's most famous investors, are the £1.31 billion **CFP SDL UK Buffettology (BF0LDZ3)** and its smaller sister fund, the £14.2 million **CFP SDL Free Spirit (BYYQC27)**.

The former is run by Sanford DeLand's Keith Ashworth-Lord while Free Spirit is managed by Andrew Vaughan, who previously worked with Ashworth-Lord on the 'Analyst' research publication and joined him at Sanford DeLand in 2017.

Skewed towards overlooked UK small caps, which plays to Vaughan's research background, the all-cap Free Spirit fund's ability to also invest in mid and large cap names differentiates it from pure small cap funds.

Just like Buffettology, the Free Spirit fund invests in quality companies with attributes including economic moats, embedded customers, what it deems to be excellent management teams, and easily manageable debt.

Companies nestling in the portfolio include in-vitro diagnostics testing firm **EKF Diagnostics (EKF:AIM)**, fantasy miniatures maker **Games Workshop (GAW)**, global testing and certification firm **Intertek (ITRK)** and construction software specialist **Elecosoft (ELCO:AIM)**.

QUALITY INNOVATION PLAY

Another pair of open-ended funds that have the quest for quality at the heart of their approach are **Guinness Global Innovators (BQXX3K8)** and **TM Cerno Global Leaders**

Games Workshop features in CFP SDL Free Spirit's portfolio

(BF00QK6).

The latter aims to achieve returns, net of fees, in excess of the MSCI World Equity index on a three-year rolling basis. Its largest holdings include luxury goods conglomerate LVMH, air compressor manufacturer Atlas Copco and lager leviathan Heineken.

Guinness Global Innovators is a global growth fund providing exposure to companies benefiting from innovations in technology, communication, globalisation or innovative management strategies.

Managed by Ian Mortimer and Matthew Page, the concentrated portfolio of 30 equally weighted stocks extended its outperformance in the second quarter of 2020, generating a total return of 27.6% versus 19.8% from the MSCI World index; this resilient, quality-oriented portfolio outperformed during the savage sell-off witnessed in this year's first quarter.

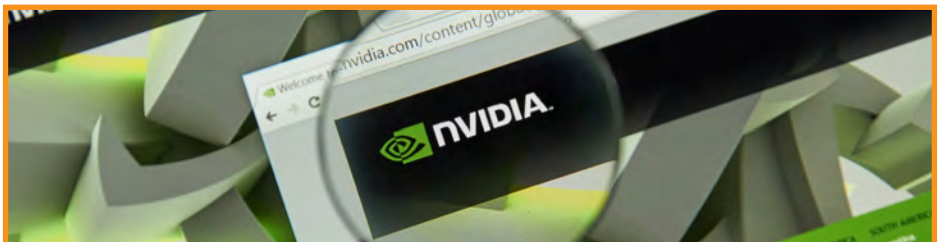

Nike features in Guiness Global Innovators' portfolio

Mortimer and Page insist innovative companies outperform on account of their faster profit growth, larger profit margins and less susceptibility to cyclical pressures.

In terms of quality, Mortimer and Page only invest in companies with good, and ideally growing, returns on capital and strong balance sheets. 'The quality element is really important for us,' Page informs *Shares*. 'We tilt towards companies that are not only able to grow, but able to grow profitably. A key metric we look at is cash flow return on investment.' The net debt-to-equity of the portfolio is around 9%, versus 90% for the MSCI World index.

The COVID-19 pandemic has accelerated growth prospects in the near-term for companies in a number of the fund's themes, such as advanced healthcare, payments and cloud computing, while also improving the long-term growth prospects for companies in the clean energy, sustainability, robotics and automation themes.

Mortimer and Page look to buy good growth companies at reasonable valuations and specifically avoid paying too high a premium for expected future growth, as this is inherently less predictable. Its portfolio includes PayPal, Infineon, Nike, Amazon and Lam Research.



TOP 10 HOLDINGS – GUINNESS GLOBAL INNOVATORS

Name	% of assets
PayPal	4.18
Amazon	3.70
NVIDIA	3.60
Facebook	3.54
Adobe	3.54
Schneider Electric	3.48
Thermo Fisher Scientific	3.46
SAP	3.43
Infineon Technologies	3.41
Medtronic	3.41

Source: Morningstar


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

The investment trusts trading at larger than usual discounts and premiums

Identifying some of the trends and opportunities which have resulted from Covid-19

Like all parts of the market the investment trusts space has been shaken up by coronavirus. As share prices and valuations have begun to settle back into place, many trusts have been left at wider and narrower than usual premiums and discounts to net asset value (NAV).

In this article *Shares* has used data from Winterflood Securities to identify trusts which have diverged significantly from their 12-month average discount or premium to NAV.

The NAV is calculated with any debt held by the trusts at book value, which is how much it will cost to repay the lender when the loan is due, rather than fair value, which is how much the debt is worth now.

LIFE SCIENCES AT A PREMIUM

Some trusts are trading at a much higher premium to NAV than their 12-month average, meaning investors are paying even more than the assets are worth. This can happen when a sector is in fashion, such as we've seen with life sciences this year.

A good example is **Syncona (SYNC)** whose strategy of investing in life science businesses is in tune with the current response to the global pandemic. It is now trading on a 39.2% premium to NAV versus a 12-month average of 15.2%.

Other trusts which have move onto greater premiums include **Civitas Social Housing (CSH)** and **Triple Point Social Housing (SOHO)**. This reflects demand for secure income at a time when the dividends available from equities have been drying up, as well as improved sentiment towards the social housing sector.

The trusts had previously been out of favour thanks to concerns over the financial health of the housing associations which rent the specialist properties. This issue is now less of a concern.

REAL ESTATE TRENDS

In the real estate market, the likes of **Tritax Big Box REIT (BBOX)** and **Urban Logistics REIT (SHED)** are trading at new-found premiums.

Investors have been attracted to the logistics space because of the acceleration of the online shopping trend in lockdown with greater demand for warehousing space to enable the sorting and distribution of goods.

This has been particularly pronounced in the groceries sector – supporting specialist **Supermarket Income REIT (SUPR)** which invests in supermarkets and fulfilment centres.

On the other side of the ledger, most office block and shopping centre real estate trusts have been badly bashed up by the crisis, trading at substantial discounts which reflect market scepticism about the true value of their assets.

Office landlords have been particularly hard hit as people expect a shift towards

SELECTED TRUSTS TRADING SIGNIFICANTLY ABOVE 12-MONTH AVERAGE DISCOUNT/PREMIUM TO NAV

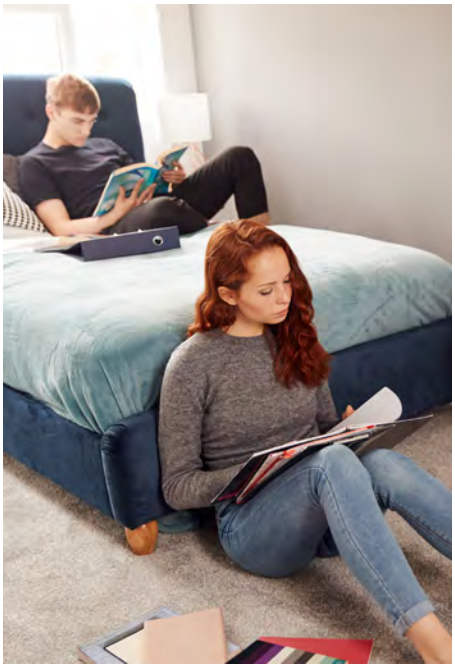
Trust	How much above average prem/disc to NAV (%)	Prem/disc to NAV (%)	12-month average prem/disc to NAV (%)
Syncona	23.9	39.2	15.2
Civitas Social Housing	15.4	2.4	-13.0
HgCapital Trust	12.0	8.3	-3.7
Triple Point Social Housing	11.6	-0.1	-11.7
Pacific Horizon	10.9	5.5	-5.4
JPMorgan Brazil	10.2	-6.9	-17.1
International Public Partnerships	9.6	22.7	13.1
Riverstone Energy	9.6	-31.9	-41.5
JLEN Environmental Assets	9.6	27.3	17.7
Gresham House Energy Storage	9.2	14.3	5.1
Tritax Big Box	9.0	3.2	-5.7
Aberdeen Standard European Logistics Income	8.8	5.9	-2.9
HICL Infrastructure	8.4	17.0	8.6
Henderson Alternative Strategies	7.4	-9.3	-16.7
Supermarket Income REIT	6.3	17.5	11.2
Manchester & London	6.3	3.6	-2.7
JPMorgan China Growth & Income	6.2	-4.1	-10.4
Urban Logistics REIT	6.1	1.9	-4.2
Biotech Growth Trust	6.1	-1.7	-7.7
Hipgnosis Songs Fund	5.4	2.8	-2.6

Source: Winterflood Securities. Data to 15 July 2020

working from home to permanently impact demand for office space from businesses, with **Regional REIT (RGL)** moving from an average 12-month discount of 11.2% to trade a third below its NAV.

STUDENTS AND DIVIDENDS

Student accommodation trusts have also slipped to big discounts as concerns have grown about the impact of coronavirus and travel restrictions on the sector as fewer students come from overseas and with potential limits on domestic students resuming in-person studying.



Elsewhere, equity income trusts have suffered amid widespread dividend cuts, while smaller company specialists have also been hit as investors become more wary about taking on the risks associated with small caps in a more uncertain environment.

The weak performance of value orientated collectives, such as **Fidelity Special Values (FSV)**, shows the investment style continues to remain out of favour as investors prefer to chase growth in areas like the technology sector.

SELECTED TRUSTS TRADING SIGNIFICANTLY BELOW 12-MONTH AVERAGE DISCOUNT/PREMIUM TO NAV

Trust	How much below average prem/disc NAV (%)	Prem/disc to NAV (%)	12-month average prem/disc to NAV (%)
Standard Life Investments Property	-30.0	-37.2	-7.2
BMO Commercial Property	-28.7	-55.2	-26.5
GCP Student Living	-24.4	-28.1	-3.7
Regional REIT	-22.6	-33.8	-11.2
Schroder European Real Estate	-21.5	-39.5	-18.0
Schroder Real Estate IT	-21.0	-45.6	-24.6
Picton Property Income	-18.9	-30.7	-11.8
Empiric Student Property	-17.1	-35.2	-18.1
Value and Income	-16.2	-40.5	-24.3
Ediston Property	-15.7	-44.4	-28.8
UK Commercial Property	-13.0	-26.4	-13.4
Lindsell Train IT	-11.9	11.7	23.6
Acorn Income	-11.9	-24.0	-12.1
Invesco Perpetual UK Smaller Companies	-11.1	-14.9	-3.8
Downing Strategic Micro-Cap	-10.9	-23.0	-12.1
R&M UK Micro Cap	-9.8	-29.3	-19.5
North American Income	-9.4	-9.2	0.2
BMO Real Estate Investments	-9.2	-37.4	-28.2
RIT Capital Partners	-8.9	-5.4	3.5
JPMorgan US Smaller Companies	-8.9	-12.2	-3.2
Temple Bar	-8.5	-13.3	-4.8
Tritax EuroBox	-8.4	-20.0	-11.6
Fidelity Asian Values	-7.8	-8.4	-0.6
Fidelity Special Values	-7.2	-8.0	-0.8
Aberdeen Standard Equity Income	-6.6	-12.9	-6.3
Merchants Trust	-6.5	-7.1	-0.6
Henderson Diversified Income	-6.4	-5.4	1.1
Target Healthcare REIT	-6.3	-1.3	5.1
Impact Healthcare REIT	-5.9	-6.9	-1.0
BlackRock North American Income	-5.4	-5.3	0.1
JPMorgan Global Emerging Markets Income	-5.3	-10.7	-5.4
Henderson Smaller Companies	-5.2	-10.9	-5.7
Montanaro UK Smaller Companies	-5.2	-18.2	-13.0
Murray International	-5.1	-3.1	2.0
Jupiter US Smaller Companies	-5.0	-15.3	-10.4

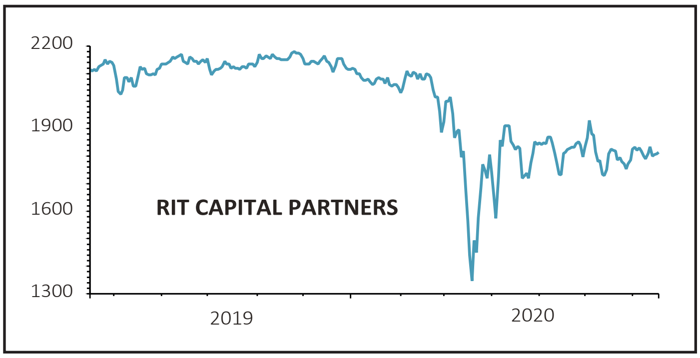
Source: Winterflood Securities. Data to 15 July 2020

TWO TRUSTS TO BUY

RIT Capital (RIT) £18

Discount to NAV: **5.4%**

12-month average premium to NAV: **3.5%**



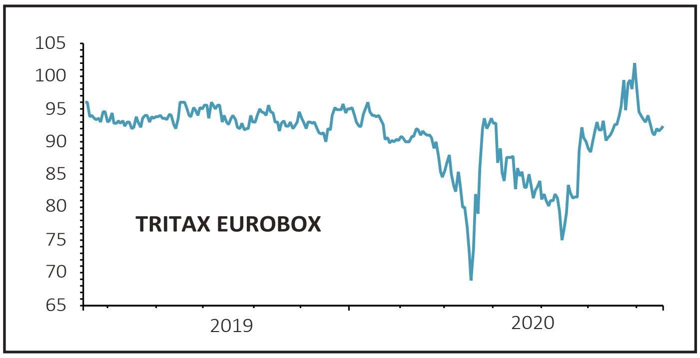
THIS WELL-REGARDED multi-asset trust has traded at a premium to net asset value for a long time, so investors should take advantage of an opportunity to now buy at an appreciable discount.

A focus on capital preservation should be a winning attribute at a time when the outlook for the economy and markets is uncertain. The trust invests in a diversified and international portfolio across a range of asset classes, both quoted and unquoted. This includes private investments, credit, macro strategies and real assets.

Tritax Eurobox (EBOX) 92p

Discount to NAV: **20%**

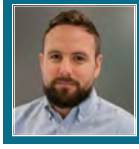
12-month average discount to NAV: **11.6%**



THE BIG DISCOUNT at **Tritax Eurobox (EBOX)** is at odds with its counterparts, including lookalike trust **Aberdeen Standard European Logistics Income (ASLI)**, and that seems unjustified despite a more limited track record and higher loan-to-value ratio.

It should be a direct beneficiary of the way Covid-19 has accelerated trends in online shopping.

Rental income is diversified across more than 20 tenants comprising retailers, manufacturers, third party logistics providers, pharmaceutical, food and drink, and packaging companies.



By **Tom Sieber** Deputy Editor

How to beat the potential capital gains tax hike

The tax system could soon change to help the Government raise money to cover some of its Covid-19 support efforts

Chancellor Rishi Sunak has signalled he is looking to shake up how capital gains tax (CGT) is paid, which could leave taxpayers with a higher tax bill.

Sunak has asked the Office for Tax Simplification to look at how CGT is structured, whether the tax can be simplified and if more help can be given to individuals in the administration of the tax.

While he doesn't explicitly say so, many people assume that the timing of the review indicates the Chancellor could be looking at changing the tax as one way to raise money in order to pay for the Government's cost of the current Covid-19 pandemic.

The Government has spent a large amount of money on helping the country to stay afloat during the current crisis and everyone expects this year's Autumn Statement to reveal how it plans to pay for this support. While additional Government borrowing is one solution, tax hikes may also be on the agenda.

The review will look at the differences between the CGT system and the income tax system, how private residence relief works and the reliefs and exemptions on offer.

PUBLIC OPINION

The move might not be entirely unpopular with the British public. Research from AJ Bell showed that two thirds of people think we have a responsibility to contribute towards the cost of the recent measures.

When questioned, the most popular tax to increase was either dividend taxes or CGT, with 37% of respondents thinking it was acceptable to raise those taxes. This was followed by a third of people who said income tax and 22% who said inheritance tax.

WHAT COULD CHANGE?

Changing tax rates: One area that may change is the rates charged on CGT (see below for current rates). There is a big difference between the rates charged for income tax and CGT.

An additional rate taxpayer, for example, would pay 45% tax on any income they make over their personal allowance, but only 20% on their investment gains. One thing the Government could do is bring these rates in line with each other.

Cutting allowances: In a similar vein to above, individuals have a tax-free rate for their income and for their capital gains – currently £12,500 before income tax kicks in and £12,300 for CGT.

These allowances could be brought together, so someone only has one lot of £12,500, for example, before they incur tax. This would bring lots more people into the bracket of having to pay CGT.

Scrapping main home relief: At the moment you pay no CGT on the gains you make on your main home – in part this is offset by the fact that you have to pay stamp duty tax when you buy a new home.

However, one suggestion has been that the Government could remove or limit this relief. This would mean lots of people who had made a gain on their property would face a large tax bill, but in turn could raise a lot of money for the Government. It would be an odd move to make just as the Government has put in other measures to try to get the housing market moving.

HOW CAN YOU BEAT THE HIKE?

If you're worried about any rise in the tax rates or cuts to allowances, you could think about locking in gains now. Remember, anything in an ISA or SIPP is exempt from CGT, so you don't need to worry about those gains. But outside of these tax wrappers your investments could face CGT.

You can choose to cash in gains up to your annual allowance this year, in order to lock in some gains and make use of that allowance. If your gains are higher than your allowance, you could transfer assets to your spouse so they can use their allowance.

Transfers to spouses are exempt from CGT, but if they then sell the assets they'll face CGT on any profit between the price you bought the investment and the price at which they are selling. If you transfer assets to them, they can then cash in the gains and use their annual allowance to avoid a large tax bill.

For example, let's assume Mrs Smith has investments that have a £25,000 gain on them, and she is a higher-rate taxpayer. If she sold those investments in one tax year, she'd use her £12,300 allowance but still pay tax at 20% on the remaining £12,700 gain – which would equal a £2,540 tax bill.

However, if she transferred the investments with the remaining £12,700 gain on them to her husband, who is a basic-rate taxpayer, he could use his £12,300 tax free allowance – leaving just £400 of gains to pay tax on. At his lower 10% CGT rate this would mean a tax bill of just £40 – saving £2,500.

Another option is cashing in the gain and rebuying the asset in your ISA, assuming you have some of your annual ISA allowance remaining. This is called 'bed and ISA' and means you can use your annual allowance, keep hold of the investment and future gains will be exempt from CGT.

HOW DOES CAPITAL GAINS TAX WORK?

You pay capital gains tax on any profit you make when you sell an asset that has risen in value.

Some assets are tax free, including your main home. Everyone gets a tax-free allowance each year, which is currently £12,300 per person.

Beyond this level any gains are taxed depending on your income tax rate, so basic-rate taxpayers pay 10% (or 18% on property) while higher and additional-rate payers pay 20% (or 28% on property).

If you give money to your spouse you don't have to pay CGT, nor on assets including land, property or shares you gift to charity. If you make a loss on an asset you can offset that against any gains you make on other assets in order to reduce your tax bill – and you can carry forward losses into future years.

By **Laura Suter**
AJ Bell Personal Finance Analyst

Can I get pension tax relief from abroad?

Our pensions expert discusses the rules for a reader who is moving overseas

I'm moving abroad to Europe but plan to continue working for a UK company and paying UK tax. Will I still be able to pay into my UK pensions and receive the same tax benefits as I do at the moment?
Paul

Tom Selby
AJ Bell
Senior Analyst says:

Because pensions benefit from generous tax treatment, they are subject to various restrictions.

The amount you can save in a pension, for example, is limited for most people to the lower of 100% of 'relevant UK earnings' or £40,000 a year.

Those without relevant UK earnings can still save in a pension, but this is restricted to £3,600 a year (inclusive of basic-rate tax relief).

Relevant UK earnings include employment income such as wages, bonus payments, overtime and commission and must be assessed for tax purposes the UK. They don't, however, include pension income or income generated from buy-to-let properties.

You can read full details of what counts as relevant UK earnings here.

Relevant UK earnings aren't the only consideration, however – you also need to be a 'relevant UK individual' to save in tax-incentivised products like pensions and ISAs.

HMRC's guidance states that an individual is a relevant UK individual in a tax year if they:

- have relevant UK earnings chargeable to income tax for that tax year;
- are resident in the United Kingdom at some time during that tax year;
- were resident in the UK at some time during the five tax years immediately before the tax year in question and they were also resident in the UK when they joined the pension scheme;
- or have for that tax year general earnings from overseas Crown employment subject to UK tax;
- or are the spouse or civil partner of an individual who has for the tax year general earnings from overseas Crown employment subject to UK tax.

The third bullet point is probably the key one for someone in your circumstances and something you should discuss with your employer before you leave for Europe.

If you are currently a UK resident and member of a pension scheme, this should provide you with a five-year window during which you can live outside the UK but continue to pay into your pension and receive tax relief based on your relevant UK earnings. You should also be able to continue receiving employer contributions to your pension.

If you qualify under the five-year rule and for any reason didn't have UK relevant earnings during your period living outside the UK, you should still be able to claim tax relief up to the £3,600 limit.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

Does broker research add value and how can I access it?

We look at the various ways of accessing company reports and debate their value

Research reports on companies listed on a stock market can provide valuable information to investors, helping them get a handle on the opportunities and threats for a business, thus helping to shape their decision whether to buy the shares or not.

For most retail investors, accessing in-depth written research on companies has always been hard work. Historically, it was only available to big investors like pension funds and asset managers or wealthy private clients of stockbroking firms.

Big investors paid for research through commissions on share trades, which came out of their clients' funds, whereas private investors paid for it out of their own pockets.

With the introduction of the Mifid 2 directive, big investors had to stop paying for research out of commissions and pay with their own money, which led to a huge drop in research revenues.

This in turn led to a sharp reduction in the number of analysts, with the result that today many smaller stocks are either covered by just one or two research firms or not covered at all, to the detriment of private investors.

However, some senior analysts decided to set up their own independent research firms, some offering paid-for research and some offering it free, paid for by their corporate customers – so-called issuer-sponsored research.

Also, several portals have sprung up in recent years offering access to a wide range of research all under one roof with investors obtaining access on a 'pay-as-you-go' basis.

WHAT DO ANALYSTS' RECOMMENDATIONS MEAN?

The definitions can vary from broker to broker, but this is a rough guide:

BUY
The shares should rise by 10% or more over the next 12 months

OUTPERFORM
The shares should beat the market or sector over 12 months

HOLD
The shares will rise or fall by less than 10% over 12 months

UNDERPERFORM
The shares will likely lag the market or sector over 12 months

SELL
The shares could fall by 10% or more over the next 12 months

FREE TO ACCESS

Among the firms offering free access to their research for retail and institutional investors are Edison, Hardman & Co and Progressive Research.

For example, Edison employs more than 80 analysts and offers coverage of over 400 companies, paid for by the companies it writes about. As well as research it provides interviews with senior executives of companies.

Free research notes tend not to have buy or sell recommendations as they don't want to show any bias towards the company which commissioned the work. However, these documents are still very valuable in terms of learning about a business. Some will also have earnings forecasts.

PAID-FOR ACCESS

A new development in the post-Mifid world is research portals, which gather research notes from various brokers and offer them all under one roof with a centralised account. When a customer buys a research report, the portal pays a fee to the firm which produced it.

Research Tree is one such destination for retail investors as it offers content from more than 30 brokers and research providers. It also has a 'Short Tracker' feature which allows customers to see which shares have the biggest outstanding short-selling interest and which have increased or decreased the most in the last month.

BUY, HOLD OR SELL

For the research notes that include recommendations, it's worth noting there has always been a tendency for analysts to write more buy notes than sell notes.

The reasons for this are two-fold. First, investors are always looking for stocks to buy, and second, writing a sell note on a stock is likely to get an analyst kicked off a company's call list when it comes to results time.

At the time of writing, according to Sharepad there are just two stocks in the FTSE 100 with a consensus sell or underperform rating, being **HSBC (HSBA)** and **Hargreaves Lansdown (HL.)**.

For the biggest stock in the market, **AstraZeneca (AZN)**, 16 of the 23 analysts who cover the stock have a buy or outperform rating with a minority at hold, underperform or sell.

AstraZeneca shares are up 19% year to date so on paper it seems as though the consensus of analyst views has added value.

However, in the case of **Royal Dutch Shell (RDSB)**, of the 42 analysts who cover the stock – the most for any FTSE 100 company – again at the time of writing 18 have a buy or outperform rating and just two have a sell rating, yet the shares have fallen 44% year to date.

Most investors didn't need 23 analysts to tell them that during a pandemic AstraZeneca was a buy, just as it didn't take 42 analysts to work out that if oil prices halved the Royal Dutch Shell price would more or less halve as well so buying the shares was a bad idea.

However, it is worth finding out when the buy or sell notes were issued, as it could be that some of the analysts are saying a stock has gone too high and so it is a sell on valuation grounds, or a stock has been sold down too far so there could be value at the current price.

MOST LOVED AND UNLOVED FTSE 100 STOCKS

MOST LOVED - HIGHEST % OF BUYS & OUTPERFORMS

Stock	Buy/Outp	% of total recs	Perf YTD
Polymetal International	12	100%	33%
Avast	10	77%	30%
Phoenix Group	6	75%	-11%
GVC Holdings	11	73%	0%
Prudential	9	69%	-14%

MOST UNLOVED - LOWEST % OF BUYS & OUTPERFORMS

Stock	Buy/Outp	% of total recs	Perf YTD
Fresnillo	1	8%	66%
Spirax-Sarco	1	7%	17%
Admiral	1	6%	3%
HSBC	2	6%	-36%
Schroders	0	0%	-12%

Source: Sharepad, Stockopedia, Shares. Data as of 17 July 2020

WHAT IS A 'HOUSE' STOCK?

As well as writing research on companies, most broking firms offer corporate services such as making a market in their shares, underwriting share offers and promoting the stock to investors.

When an analyst refers to a company as a 'house stock' it means the brokerage has a corporate relationship with that firm and therefore has a vested interest.

That doesn't mean the analyst has to flatter the company in their research, but it makes it unlikely they would put a sell recommendation on the stock so at worst they might have a hold recommendation.

Alternatively, they might have a neutral recommendation, meaning they expect the stock to perform in line with the rest of the companies in its sector as opposed to outperform or underperform.

If they want to play it safe, they can stick a corporate recommendation on the stock which avoids having to give any kind of view.

House brokers are obliged to make it clear in their research that they have a corporate relationship with the firm they are covering.

DO ANALYSTS ADD VALUE?

Broker research can be a useful tool but only if it supplements your own research and good old-fashioned common sense.

For example, at the time of writing among the most loved stocks in the FTSE – which we have calculated as those with highest percentage of buy and outperform ratings divided by the number of analysts covering the stock – a working knowledge of the companies, the sectors in which they operate and the news flow would have been just as useful as paying attention to the bullish consensus.

Similarly, for stocks feeling the least love from the market, a basic knowledge of the companies themselves, the sectors they operate in and what drives them should have been enough to help investors avoid the big losers.

By **Ian Conway,**
Senior Reporter

WATCH RECENT PRESENTATION WEBINARS

Brad Sampson, CEO
Kore Potash (KP2)

Kore Potash is an advanced stage mineral exploration and development company whose primary asset is 97%-owned interest in the Sintoukola project, a potash project located in the Republic of Congo.

Dave Wilson, CFO & COO
GB Group (GBG)

GB Group provides identity intelligence solutions through its two divisions of Identity Proofing and Identity Solutions that offers electronic ID Verification services and ID Registration, ID Engage and ID Trace and Investigate software and services.

Dr Adam M Hill, CEO
Oncimmune (ONC)

Oncimmune is a cancer detection company engaged in developing and commercializing its proprietary EarlyCDT platform technology. Its product EarlyCDT-Lung is a simple blood test to aid the risk assessment and early detection of lung cancer.

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

CLICK TO PLAY EACH VIDEO

SHARES SPOTLIGHT

www.sharesmagazine.co.uk/videos

INDEX

KEY

- **Main Market**
- **AIM**
- **Fund**
- **Investment Trust**
- **Overseas**
- **ETF**

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

28 July: IG Design.

Half year results

24 July: Centrica **28 July:** Greggs, St James's Place. **29 July:** Aston Martin Lagonda, Dignity, Drax, Rio Tinto, Smith & Nephew, Smurfit Kappa, Taylor Wimpey, Unite. **30 July:** AstraZeneca, BAE Systems, Inchcape, Royal Dutch Shell, Robert Walters, Schroders. **31 July:** Intertek, Royal Bank of Scotland.

Trading statements

29 July: Aveva, Next, Wizz Air. **30 July:** Compass, Evraz, Volution.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

SENIOR REPORTERS: Martin Gamble @Chilligg; Ian Conway @SharesMagIan

REPORTER: Yoosof Farah @YoosofShares

CONTRIBUTORS Russ Mould, Tom Selby, Laura Suter

ADVERTISING
Senior Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

CONTACT US:
support@sharesmagazine.co.uk

All chart data sourced by Refinitiv unless otherwise stated

PRODUCTION
Head of Design: Darren Rapley
Designer: Rebecca Bodi

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