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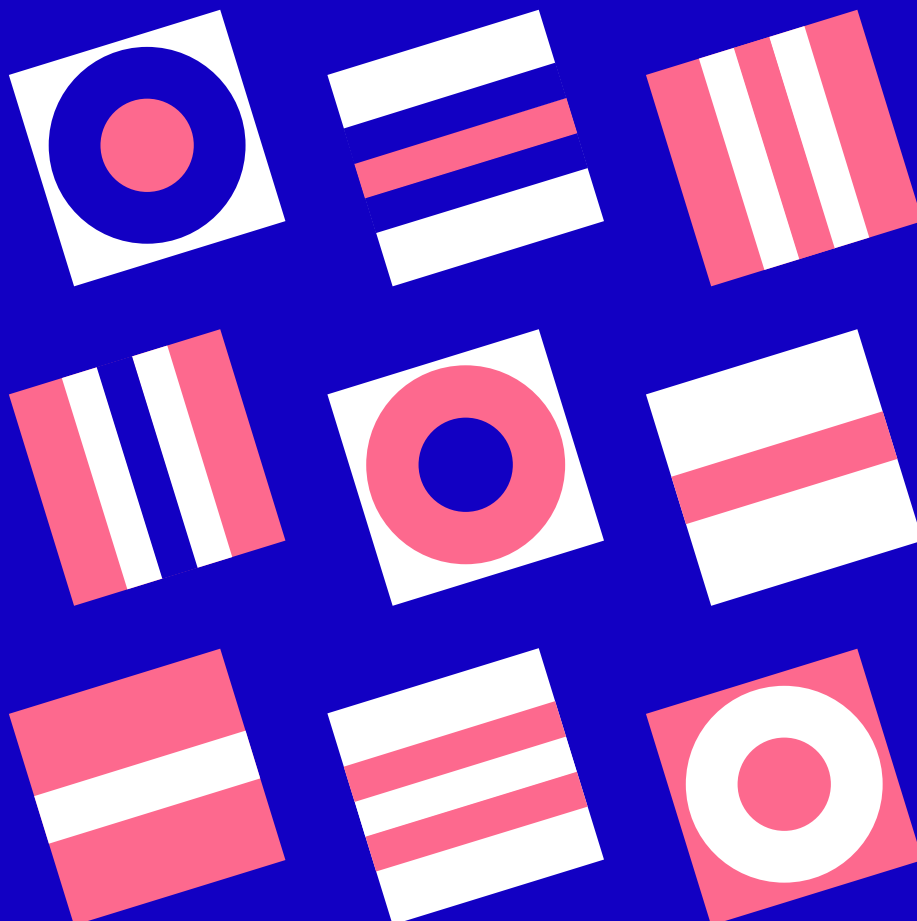
**SHARE PRICE**  
**RECOVERY** WIPED  
OUT FOR **TUI**,  
**EASYJET** AND **IAG**

**CAUTION**  
REPLACES  
**OPTIMISM** ON  
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# The signals that suggest it's time to buy Unilever

The consumer goods giant is making some interesting strategic moves

In a world where everyone seems to be obsessed with growth, it's quite interesting when **Unilever (ULVR)** sees its share price jump 8.4% on reporting no growth at all (23 July).

The consumer goods giant managed to avoid the second quarter decline predicted by analysts and deliver a resilient performance. The market liked the outcome and bid up the shares. However, there's more to the positive share price reaction than simply beating forecasts for three months' trading.

Unilever is one of those seemingly boring companies that lacks the type of excitement provided by other parts of the market such as technology.

It sells essential products around the world and owns some of the best-known household brands among the hygiene, food and drink markets. That helps it make billions of euros in profit each year, albeit earnings progress is limited.

Failure to deliver decent growth has seen the share price mostly tread water since 2017. It has delivered 17.3% total return over the past three years, lagging the 25.2% achieved by the MSCI World index.

However, there are reasons to be positive. What strikes me as interesting is the fresh thinking from Alan Jope who took over as chief executive just over 18 months ago. Despite having been with the company since 1985 and therefore at risk of being too accustomed to the old ways, Jope is eager to breathe some new life into the business.

This includes focusing on the best growth areas and being more relevant to young people, so they'll not only buy today but also buy Unilever products for many years to come.

The recent decision to abandon its dual Anglo-Dutch corporate structure in favour of a single company based in London will give it more flexibility to make acquisitions and disposals easier and faster.

The latest trading update included a decision to spin off most of its tea business into a separate



entity. This shows Jope is now being true to his word of taking action to reshape the company.

The tea business has been struggling to grow for some time and a large chunk of its portfolio is in black tea, which is the preference of older people. To engage more with younger people Unilever will need to have a greater presence in the fruit and herbal tea market.

Running a tea business on its own and not part of an effective consumer conglomerate should give management more freedom.

Equally, it shows that Unilever is finally taking action to unlock value in its business and address growth issues – and that's a good reason to start buying the shares, alongside the fact that it continues to be a monster cash machine.

High cash generation is a key reason why many fund managers like the stock. Unilever has a strong ability to keep churning out dividends and any investor who can reinvest those payments into buying more shares should enjoy good compounding benefits over a longer period.

While the stock has lagged in recent years, looking over the past 10 years it has delivered 237% total return which is considerably more than the MSCI World index (165%). Definitely one to tuck away so it can quietly enhance your wealth for the future.



By **Daniel Coatsworth** Editor



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# Share price recovery wiped out for TUI, EasyJet and IAG

Consumer confidence in foreign holidays looks severely dented following quarantine news



**T**he share price recovery in many travel stocks has been wiped out by the UK Government's decision to impose a two-week quarantine on everyone arriving from Spain.

Tour operator **TUI (TUI)** and airlines **EasyJet (EZJ)** and **International Consolidated Airlines (IAG)** are now trading around, or lower than, the level in mid-to-late March when global markets bottomed out.

They had all previously seen a sharp rebound in April and May as investors took the view that leisure demand would recover quickly.

**Ryanair (RYA)**, **Wizz Air (WIZZ)**, **On The Beach (OTB)** and **Dart (DTG:AIM)** are still trading well above their March lows.

The UK/Spain quarantine decision stands to knock consumer confidence over taking holidays abroad in the near-term, particularly for people who cannot work from home and so do not want to risk being stuck indoors for a fortnight when they return from their travels.



## TRAVEL-RELATED STOCKS SINCE UK IMPOSED QUARANTINE RULES ON PEOPLE ARRIVING FROM SPAIN

EasyJet	-10%
TUI	-9%
International Consolidated Airlines	-7%
Dart	-5%
Wizz Air	-4%
On The Beach	-2%
Ryanair	0%

Source: SharePad. Data 24 July 2020 market close to 12pm 28 July 2020

Analysis of web traffic data by investment bank Jefferies implies that any bounce for foreign package holiday firms after the Government eased travel restrictions was already losing momentum before the UK/Spain quarantine news. That might explain why many travel stocks have been drifting downwards since June.

Its research showed that web traffic for the listed tour operators TUI, Jet2 and On The Beach in mid-July was down 40% to 50% year-on-year, while UK staycation Google searches in contrast remained high. For example, over twice the number of people searched for 'Cornwall holiday' than 'Spain holiday', according to the data.

A preference for staycations this summer appears to be backed up by media reports of cottages, resorts and campsites reporting record sales and bookings for this year and next year.

Premier Inn owner **Whitbread (WTB)** plans to have reopened most of its hotels and pub restaurants by the end of July in anticipation of a staycation summer.

In a trading update earlier this month, the company said it had seen good demand for the summer months in traditional regional tourist destinations, though in big cities like London demand remained subdued. Analysts at HSBC point out the firm could be in line to benefit from the troubles affecting rival hotel chain Travelodge.

As well as hotels, pub operators could also benefit from a staycation boom. **City Pub Group (CPC:AIM)** has seen its shares rise 10% since revealing (27 July) that it had been trading profitably since reopening half its pubs on 4 July.



# Caution replaces optimism on UK economy

Now is not the time to take excessive risks with stock selection



**T**his week saw the publication of the latest EY Item Club forecast for the UK economy, and it doesn't make for happy reading.

The group uses the Treasury model of the UK economy, but it is free of political or business bias and it certainly isn't looking at a V-shaped recovery.

EY's chief UK economist Mark Gregory says that while the changes caused by the pandemic were very visible, there wasn't the hard data to make predictions. As lockdown was eased, 'more optimistic voices could be heard,' he says.

Given the GDP numbers for April and May it's now clear that a return to pre-Covid levels of activity is a long way off.

EY has cut its growth forecast for the UK economy this year to a fall of 11.5%, much worse than the 8% decline it predicted in June and the 6.8% decline it saw at the end of April. And as it points out, this isn't even the worst-case scenario – there are still

downside risks from a second wave of the virus and a sharp rise in unemployment.

Last week's second quarter Red Flag Alert Report from insolvency and business advice group **Begbies Traynor (BEG:AIM)** predicted 'a dam of company financial distress waiting to break on the UK economy' in the second half of the year as Government support for businesses is withdrawn.

Particularly at risk are commercial property and retail firms, but the damage isn't confined to brick and mortar brands as many online retailers are also suffering significant financial distress.

The best news so far is that companies are tending to beat earnings estimates, but according to analysts at Morgan Stanley this is likely because the bar has been set so low as to allow firms to hop over it.

From their analysis of UK and European company results, a small majority (58%) have beaten earnings forecasts by 5% or more, while 24% have missed estimates. Despite a net 30%-plus beating the consensus, however, second quarter earnings per share for the median stock are still 38% lower than the same period a year ago.

Even those firms that have surprised positively on earnings have flagged that costs are set to rise over the second-half due to supply chain reorganisation, counter-Covid measures such as enhanced hygiene regimes, or provisions for job losses later this year.

Investors will need to stick with companies with strong balance sheets and good cash flow generation in order to weather the coming storm.



Source: M23 Research



# Analysts calculate value of Vodafone's mobile towers business

Vantage Frankfurt IPO spin-off is already 'priced in', according to one expert

**A**nalysts have run the numbers on **Vodafone's (VOD)** European mobile masts business and believe that investors should not anticipate significant share price upside from the mobile network being spun-out.

Vantage Towers, as the masts business has been named, owns around 68,000 towers around Europe, generating an estimated €1.24 billion of revenue and €680 million of earnings before interest, tax, depreciation and amortisation (EBITDA). That implies an EBITDA margin of 55%.

Vodafone hopes to merge its UK towers unit, CTIL, into the Vantage business. This depends on striking a deal with joint venture partner O2, having agreed to a network sharing deal to save on operating costs in 2012. CTIL would add between €50 million and €70 million of EBITDA to the Vantage business.

The FTSE 100 telecoms giant has been chewing over the idea of demerging its mobile masts arm for several years as a route to unlocking value it perceived was buried in the operation.

A dedicated towers business with shares traded on a stock market would be more transparent to investors and could potentially attract a higher valuation.

The towers operation will join the stock market in Frankfurt rather than the London Stock Exchange. The news didn't go down well with UK investors who have already had to contend with Vodafone's share price being stubbornly in decline for the past five or six years.

The company is believed to have been encouraged by foreign mobile tower business valuations in recent months. This was highlighted by Spanish-listed towers company Cellnex, which recently raised €4 billion of extra cash from investors to pursue acquisitions.

That cash call implied that Cellnex was trading



on an EBITDA multiple of 21-times, according to analysis by Megabuyte analyst Philip Carse, versus Vodafone's 6.9-times valuation. But Carse believes that any share price upside for Vodafone spinning off the asset is already priced in.

'A similar multiple to Cellnex for Vantage (circa €14.3 billion) would imply around 5.5 times EBITDA for the rest of Vodafone. That's in line with European peers, such as Deutsche Telekom, Orange and Telefonica, and well above the 4.0 times EBITDA of **BT (BT.A)**,' he says.

Any tower value upside may have to be earned by sweating its mobile masts estate to greater effect. This would include initiatives such as driving up third-party tenancies, says Carse, or the average number of third-party mobile service providers renting space on towers for their own network equipment. 'Vodafone's current 1.5-times tenancy ratio compares with Cellnex's 1.6,' according to Carse.

Ultimately, Vodafone needs to demonstrate real value from its large 5G investment to reignite its share price.



# Games Workshop and Greggs: A tale of two consumer-facing stocks

One is priced to perfection and the other faces a difficult recovery

**R**esults from two of the stock market's best-in-class consumer-facing companies triggered opposite share price reactions on the day (28 July), moves that demonstrated the contrasting fortunes of the pair.

While fantasy miniatures maker **Games Workshop (GAW)** gained on the expectation its stellar growth will continue, food-to-go retailer **Greggs (GRG)** cheapened on uncertainty regarding when it will ever return to 2019's earnings level in an era of social distancing.

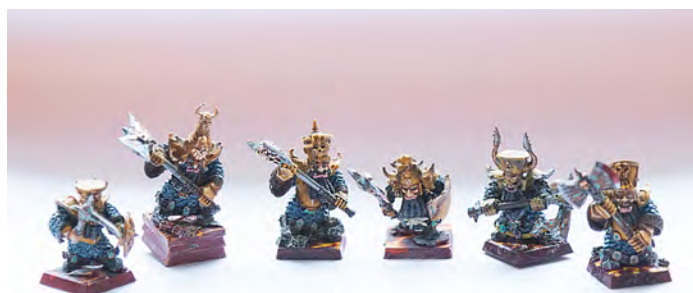
High-flying Games Workshop added another 10% to trade at £93.08 after the Nottingham-based company hailed the 'best year' in its history, leaving the company trading on more than 11 times the record sales generated in the year to May 2020.

Despite the pandemic, Games Workshop delivered another year of record revenue, profit and cash generation, boosted by online success and customers spending lockdown painting its models and expanding their collections of wizards and warriors.

However, there is now the very real danger that any disappointments will be harshly punished by the market.

Put simply, optimistic investors are pricing in the flawless execution of a growth plan which focuses on generating royalties through the exploitation of intellectual property through the creation of computer games, TV shows and other media projects.

Games Workshop is in the final stages of developing a TV project based on



one of its most popular Black Library novel series, Eisenhorn, for instance.

Heading in the opposite direction was value sandwiches-to-sausage rolls retailer Greggs, which soured a further 5.8% to £13.75 after it served up downbeat results for the first half to 27 June, leaving the stock 44% off its 52-week high. This was a period during which Greggs' stores were closed for weeks on end, so there were no real surprises here.

Yet the forward-looking market is now concerned over the impact subdued footfall will have on the business, as many people continue to work from home and consumers remain skittish concerning the virus.

Greggs has done everything it can to adapt to the new retail world whilst sensibly slimming down its product range to focus on best sellers, but the retailer expects sales to remain below normal so long as social distancing persists.

The positive news is that Greggs pointed to an 'encouraging' sales trend since shops reopened and said it would continue to invest in new stores, albeit at a slower rate than planned pre-Covid.

Company-managed shops – as opposed to franchised stores – saw sales reach 72% of 2019 levels in the week ended 25 July and at a group level the firm is now back to trading broadly at operating cash breakeven, which may hearten contrarian investors.





# Why gold has reached an all-time high

The metal price has soared amid a cornucopia of investor concerns, and some believe the gold rally still has further to run



**G**old has hit an all-time high of \$1,980 per ounce as increasing numbers of jittery investors look for a safe place to put their money amid rising US-China tensions and a worsening economic outlook from the coronavirus pandemic.

At the time of writing, the spot price of gold stood at around \$1,935 per ounce, eclipsing the previous all-time high of \$1,921 per ounce set in September 2011, with the price of the shiny metal rising around 9% in the past month and 27% this year.

As well as general coronavirus worries and nervousness over relations between the US and China, analysts at Commerzbank say a driving force behind the big upswing in the gold price is a weaker US dollar, which has sunk to a two-year low on heightened concerns about the American economy.

When the dollar moves lower, gold often goes up as it becomes cheaper in other currencies.

The Commerzbank analysts also point to other factors such as growing investor concerns about currency debasement following a sharp rise in the money supply, as well as negative real interest rates.

In addition, highly valued stock markets – particularly ones in the US like the Nasdaq which hit an all-time high in June – have started to tail

off in the past week, prompting inflows into gold and silver exchange-traded funds (ETFs). While not always the case in recent months, gold typically does well when the stock market falls.

## DOWNSIDE RISKS TO CONSIDER

Those looking to take advantage of the strength in the gold price should consider some of the downside risks.

The Commerzbank analysts say the speed of gold's upswing – its price has gained 5% in the past week – 'should sound a warning bell' as this can often precede a fall. While current momentum could persist, if gold goes above the \$2,000 per ounce mark this could result in profit taking by investors, which could cause the price to dip again.

There is also the consideration that economies around the world could recover in line with current expectations or perhaps even better than expected, and/or an effective coronavirus vaccine comes to fruition in the next few months.

These factors could push the price of gold back down again, as such safe-haven assets wouldn't be needed as much if the global outlook becomes rosier.

But on the flip side, certain indicators do suggest there are still legs in the gold rally.

The metal's price only represents 0.59 times the



value of the S&P 500's value, barely half the post-1970 average of 1.14-times and pales next to the 1.6-times multiple gold reached at its previous all-time high in September 2011.

Also, there's the argument that we could be facing the return of high inflation in developed economies, due to record low interest rates, quantitative easing, global supply-chain disruption and firms increasing prices to meet the extra costs of staying in business. This is another factor which would support a higher gold price as the metal has historically been a good hedge against inflation.

### WAYS TO GET EXPOSURE

For those looking to invest in gold, two ways to



#### EXAMPLES OF LONDON-LISTED GOLD MINERS

2020 PERFORMANCE YEAR TO DATE	
Greatland Gold	689%
Pure Gold Mining	210%
Caledonia Mining	201%
Petropavlovsk	187%
Condor Gold	141%
Pan African Resources	116%
Ariana Resources	96%
Fresnillo	92%
Hummingbird Resources	88%
Shanta Gold	74%
Centamin	62%
Polymetal International	57%
Galantas Gold	51%
Hochschild Mining	48%
Highland Gold Mining	48%
Orosur Mining	42%
Serabi Gold	34%
Trans-Siberian Gold	30%
Resolute Mining	8%
Chaarat Gold	7%
Anglo Asian Mining	1%

Source: SharePad, Google Finance. Data to 28 July 2020

get exposure are through an ETF or shares in a gold miner.

Gold ETFs have certainly delivered strong returns this year, with **iShares Physical Gold (SGLN)** for example returning 28.6% in the year to date.

Gold miners, a leveraged play on the commodity's price, on the other hand have behaved differently, falling initially in line with the market but then rebounding stronger as gold jumped.

When the gold price soars such miners usually do well, both from a share price point of view and in terms of their earnings.

A high gold price can encourage junior miners to pick up projects that previously weren't worth pursuing. While they may now be economically viable, investors should adopt a cautious stance towards any project that only works at the current high price. A pullback in the value of gold could quickly make these assets unappealing again.



Canadian Malartic mine is 50% owned by Yamana Gold

#### YAMANA GOLD

Gold and silver producer **Yamana Gold** is set to return to the UK stock market in the coming months with a listing on the London Stock Exchange.

Currently valued at just under £5 billion (based on its New York listing), the Canadian miner will trade on London's Main Market but it won't be eligible for the FTSE indices.

Yamana joined AIM in 2003 and moved to the London's Main Market in 2007. It delisted in 2013 as most of its shares traded on the Canadian and US markets.

The London market now only has a few gold miners of size and Yamana believes there is enough interest to warrant returning to the UK market.



# Coca-Cola shares are trading at a rare bargain level

History suggests they should revert back to a higher rating than the current one

**S**hares in beverages behemoth **The Coca-Cola Company (KO:NYSE)** plunged with the wider market in March. Yet despite recovering from their 52-week low of \$36.27, they remain some 20% off their \$60 one-year high, having failed to join in with the rally led by the US technology giants and other stay-at-home beneficiaries.

*Shares* believes this is an attractive entry point for a patient long-term investor, as this consumer defensive colossus has proven pedigree in surviving challenging periods and emerging stronger.

Coca-Cola trades on a cyclically adjusted price-to-earnings (PE) multiple of 22 for 2021, falling to 20.8 for 2022, according to M23 Research.

This is bargain territory for the stock. Looking back over the last

**THE COCA-COLA COMPANY**

**BUY**

(KO:NYSE) \$48.48

Market cap: **\$208.3 billion**

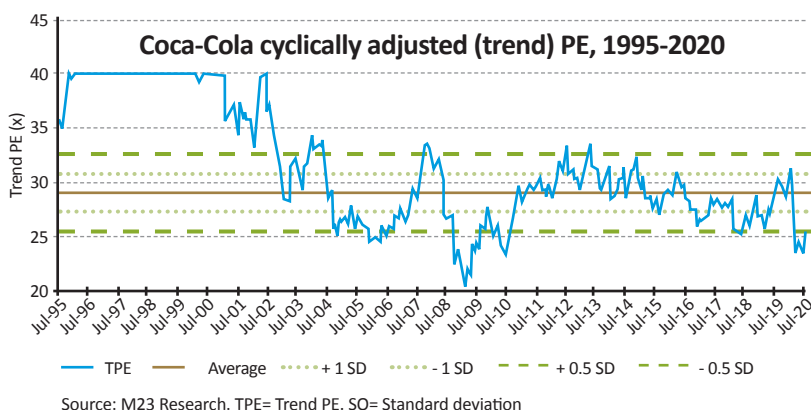
25 years, Coca-Cola has traded on a cyclically adjusted PE of 29.1. Mean reversion suggests that asset prices will eventually revert to the long-run average and Coca-Cola has done this on many occasions in the past. It gives us confidence that over the next few years we could see the shares trading back towards 29 times earnings.

If earnings remain static for the near-term, mean reversion implies a share price towards \$60. However, analysts expect a decent recovery in earnings

during 2021.

Consensus forecasts have pre-tax profit dipping to \$9.72 billion in 2020 (last year: \$11.31 billion). Next year they are expected to jump to \$11.04 billion and hit \$12.18 billion in 2022. This year's earnings decline is already priced in by the market and investors are now more focused on what corporates will be doing in 2021 and beyond.

**COKE'S UNBREACHABLE MOAT**  
Listed in New York, The Coca-





Cola Company is the business behind Coca-Cola or 'Coke', the world's most recognised soft drink. The \$208 billion cap manufactures and sells concentrates and syrups to its 300 bottling partners. It still owns the brands and controls brand marketing initiatives.

The bull case is so much more than its eponymous brand, because Coca-Cola is a total beverage behemoth offering over 500 brands in more than 200 countries and territories. It is also a premium juice, organic tea and coconut water concern.

Its brands include four of the world's top five non-alcoholic sparkling drinks, namely Coca-Cola, Diet Coke, Sprite and Fanta and lesser-known names such as Dasani, Powerade and Minute Maid. The Coca-Cola Company also owns two UK household names: coffee brand Costa and mixers brand Schweppes.

Long-term, Coca-Cola has been a market-beating investment with dividends forming an important part of the total returns for investors, although we acknowledge the business is challenged in the short-term.

#### DEMAND BEGINS TO IMPROVE

Coca-Cola's sales fell 28% to \$7.2 billion and earnings per share declined 32% to \$0.41 in a coronavirus-impacted second quarter to 26 June.

These declines were mainly driven by pressure in 'away-from-home' channels, which speak for around half of Coca-Cola's sales. Chief executive James Quincey believes the second quarter will prove to have been the most challenging of the year, suggesting the worst is now over.



**Coca-Cola's brand has been going strong for over 130 years**

Encouragingly, since Coca-Cola's previous update three months ago, global unit case volume trends, a key demand indicator, have improved sequentially from a decline of roughly 25% in April to a decline of about 10% in June as lockdowns eased and with July also exhibiting signs of improvement.

Coca-Cola said it was seeing improving trends in away-from-home channels, namely restaurants, cinemas and entertainment venues, along with sustained, elevated sales in at-home channels.

Assuring the market that the balance sheet remains robust, and the company is confident in its liquidity position as it continues to navigate through the crisis, Coca-Cola is in a strong position to profit as the world reopens and thirsty populations emerge from lockdown around across the globe.

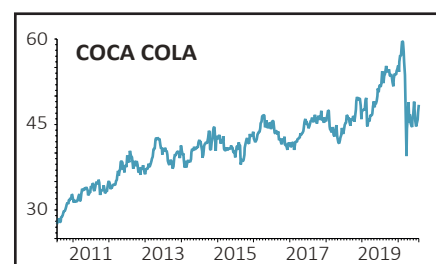
#### RISKS TO WEIGH

Admittedly, Coca-Cola competes in a mature industry and fizzy drink consumption is reducing in developed markets due to the increase in health-conscious consumers and government-imposed taxes on sugar-laden products.

Covid-19 has also disproportionately impacted people who are overweight and government initiatives, such as Boris Johnson's new anti-obesity strategy, could present a headwind.

Nevertheless, it is worth remembering Coca-Cola's brand resonance in the non-alcoholic beverage category has been going strong for over 130 years and low and no-sugar products, notably Coca-Cola Zero, have proved successful.

As part of a balanced diet, a can of Coke represents an affordable treat, as does the equity of The Coca-Cola Company.





# Knights set to lure top lawyers and their clients from rival law firms

Competitors' big fee earners could be tempted to move jobs instead of having to keep their current workplace afloat with cash support

**T**he crisis has created something of a structural shift in the legal sector, with many traditional Top 100 law firms having to ask partners to put up cash to keep their businesses going.

This has provided legal and professional services business **Knights (KGH:AIM)** with a unique opportunity to tempt senior fee-earners away from the big law firms, together with their client base.

Knights was one of the first UK law firms to move away from the old-fashioned partnership model to a corporate structure in 2012. It has a strong presence outside London, particularly in Birmingham and the Midlands, where the market is highly fragmented and under-supplied.

It used the cash raised from its stock market listing in June 2018 to consolidate, taking over nine regional firms and increasing its number of fee earners from 350 to more than 930 at the last count.

Knights specialises in corporate and commercial law and has a roster of over 18,000 clients. Its average case size is £3,000, which paired with its geographic spread and its diversified client base means revenues are not highly dependent on a single

**KNIGHTS**  
 **BUY**  
 (KGH:AIM) 398p

Market cap: **£326 million**

sector or client.

As chief executive David Beech is keen to point out, Knights is highly focused on cash collection with an industry-leading time until it gets paid of just 85 days against an average for the UK Top 100 law firms of 145 days.

In the year to 30 April, turnover grew by 40% to £74.3 million with 10% organic growth and 30% coming from acquisitions. On an underlying basis, pre-tax profit rose 45% to £13.6 million as the firm moved quickly to cut costs.

Having deferred all non-essential capital spending as well as stopping all discretionary spending, reducing staff numbers and salaries, Knights is set to emerge from the near-term uncertainties in a strong position, according to chairman Bal Johal.

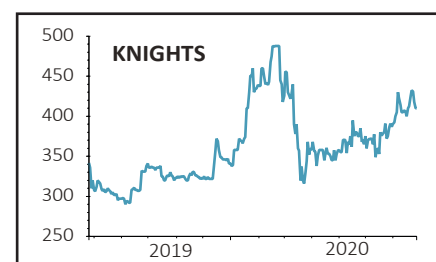
The market for legal services stabilised in June after an initial fall in April and the firm is seeing early signs of a recovery. Its recent acquisitions



are integrating faster than management expected, but the focus for the first half of the current financial year is on organic growth.

Analysts at Numis see revenues to April 2021 growing more than 35% to £102 million and pre-tax profits also rising by more than 35% to £19.4 million, while cash generation is set to improve as management bring the speed at which recently-acquired companies are paid by clients down sharply to the group average.

Analyst Rachel May at Shore Capital points out that the regional legal market is worth £2.6 billion per year, so there are plenty of 'interesting opportunities' going forward.





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**US stocks, Tesla, capital gains tax shock and small cap guru interview**

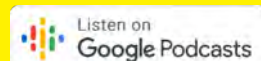
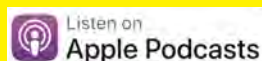
**Mini-Budget special: what the Chancellor's giveaways mean for your money**



# MONEY & MARKETS

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## KAINOS

(KNOS) £10.75

**Gain to date: 49.7%**

**Original entry point:**

**Buy at 718p, 19 December 2019**

DIGITAL TRANSITION company **Kainos (KNOS)** had struck a tone of cautious optimism through lockdown, but its latest trading blew the cautiousness out of the water and set the share price alight.

‘We expect revenue to be well ahead and adjusted profit to be substantially ahead of current consensus forecasts for the full year ending 31 March 2021,’ the company told investors.

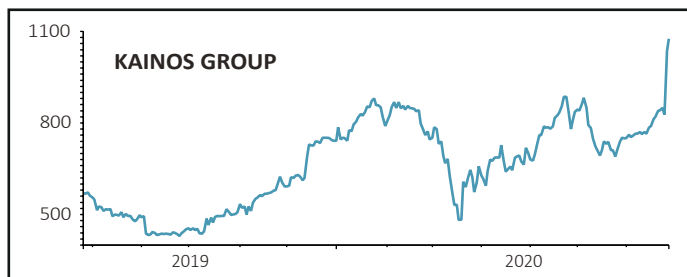
Analysts at Stifel increased revenue and earnings before interest, tax, depreciation and amortisation (EBITDA) forecasts by more than 10% and nearly 60% respectively, to £188.95 million and £34.9 million.

Net cash of over £62 million and no debt meant Kainos was also able to declare a special dividend of 6.7p per share.

Popping 25% on the day (27 July), it means the share price is now nearly 50% higher on our original buy price of 718p.

It is a little too simplistic to see Kainos as a digital transformation beneficiary through lockdown, although its public sector/government space has proved hugely resilient.

Investors have wised up to the opportunity that lies ahead for the Belfast-based business even if spells of weaker client spending materialise.



### SHARES SAYS: ↗

Significant upside from here may be asking too much from a price-to-earnings multiple of 47.4, but as a longer-run investment, Kainos continues to look attractive. Stick with the shares.

## TRISTEL

(TSTL:AIM) 427p

**Loss to date: 12.9%**

**Original entry point:**

**Buy at 490p, 27 February 2020**

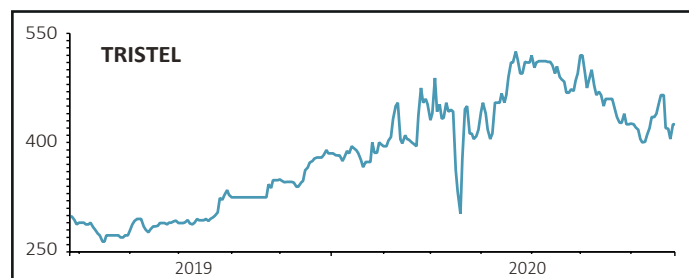
IT'S NOT often you see shares in a company fall on a statement that says full-year results will be ahead of market expectations. Sadly that is what happened with infection prevention specialist **Tristel (TSTL:AIM)** which dropped nearly 10% on 22 July after publishing what initially looked like a very bullish trading update.

Tristel said for the 12 months to 30 June 2020 it expects to report a 21% increase in both sales and adjusted pre-tax profit. It said the business has no debt, and cash at the end of the recent financial year was £6.2 million (2019: £4.2 million). The small cap also said it would keep paying dividends.

Normally such messages would have been welcomed with open arms by the market. So why did its shares fall?

Travel restrictions to the US have delayed the appraisal of a product for the North American market. It has also seen a decline in the use of its medical device decontamination products as hospitals postponed non-critical patient appointments. Uncertainty over when hospitals will see more normal levels of activity is a negative from the market's perspective.

FinnCap forecasts pre-tax profit of £7 million and 6.5p dividend for the year to June 2021.



### SHARES SAYS: ↗

Don't be put off by the recent pullback in the shares. Tristel is a long-term winner from increased disinfection usage. Keep buying.





## TEXAS INSTRUMENTS

(TXN:NDQ) \$132.12

**Gain to date: 15.5%**

**Original entry point:**

**Buy at \$114.42, 21 May 2020**

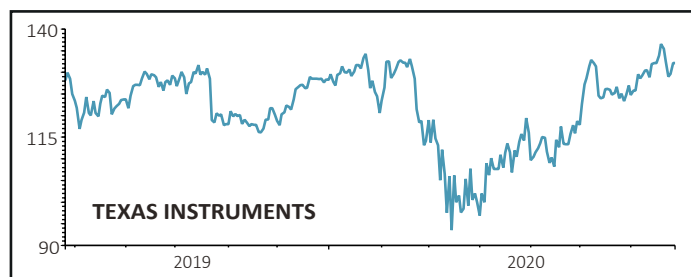
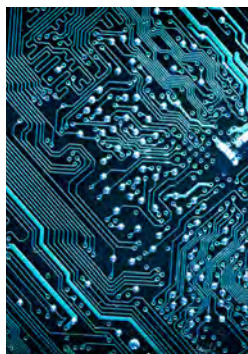
WE CALLED US-listed **Texas Instruments (TXN:NDQ)** a resilient technology business for a diversified investment portfolio in our original analysis in May, and it has lived up to that reputation and more so far.

The company reported second quarter earnings of \$1.48 per share on 21 July, beating consensus estimates of \$0.88 per share and last year's equivalent \$1.29 per share, albeit inflated by a one-off \$0.33 per shares tax gain.

Having a vast spread of markets at which to aim its power control chips is exactly what makes Texas so reliable, even in these testing times. Modest growth from industrial demand and 10% increase from consumer electronics offset under pressure automotive sales, which fell 40%-plus year-on-year.

The company is another to confirm what increasingly looks like a sustained work and learn from home trend, yet inventory build is a potential fly in the ointment and worth watching.

Many of its customers have been building stocks of vital components just in case something nasty emerges in the second half. This is a natural part of the semiconductor industry, but inventory builds never last long, so it's something to monitor during the coming months.



### SHARES SAYS: ↗

**A solid start from a well-balanced business. Still a buy for the longer-term.**

## AG BARR

(BAG) 437.21p

**Loss to date: 12.5%**

**Original entry point:**

**Buy at 499.5p, 7 May 2020**

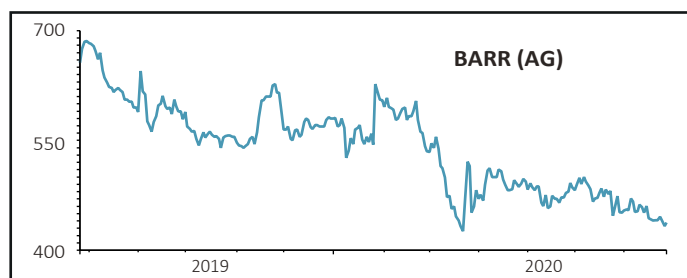
WE SAID to buy the Irn-Bru maker in May, believing that its share price didn't warrant being so low. A new trading update confirms that the initial lockdown period wasn't good for sales, which shouldn't be a surprise. More encouraging is news that sales from both the hospitality sector and consumers 'on the go' are starting to pick up.

Anyone investing should really take a long-term view of a business and not simply base their decision to buy or sell on just a few months' trading.

AG Barr continues to generate positive cash flow and we have faith in it getting through the current difficult period.

Liberum says the 8% decline in first-half revenue to £113 million was much better than its forecast for £94.6 million in sales. 'The material beat versus our expectations appears driven by a strong performance in the impulse channel as AG Barr helped independents navigate the shift to take-home occasions from immediate consumption,' says the broker.

Assuming there are no major flare-ups of the virus in the UK, Liberum believes AG Barr could think about restarting dividends when it reports half-year results on 22 September. 'The share price fall (-25% year to date) is at odds with this strong update,' it adds.



### SHARES SAYS: ↗

**AG Barr is getting back on its feet so use the ongoing share price weakness as a reason to buy more shares as a long-term investment.**



# VALUE INVESTING MAY BE PART OF THE REMEDY FOR PANDEMIC-HIT PORTFOLIOS

ADVERTORIAL



## RARE MARKET ENVIRONMENT

After a long period of relatively stable markets, the last few months serve as a stark reminder of how volatile markets can be. During a bear market, the more markets fall, the more fearful we become. We see big portfolio losses as a threat to a comfortable retirement, so we cut our losses and run. Our emotions are too strong to allow us to rationalise the situation.

But while the circumstances clouding the market are dark, the falls should create opportunities for investors who can take a long-term view. In simple terms, many companies will likely be significantly cheaper to buy now than they were six months ago. We believe this value-oriented strategy of adding selectively to assets which are assessed to be undervalued will give us an advantage on the market's recovery.

## VALUE IN A DOWNTURN

As value investors, we cannot control how participants in financial markets choose to price the assets we own on a day-to-day or quarter-to-quarter basis. What we can do is attempt to determine the value of the assets we invest in on your behalf and decide if today's price is attractive, relative to that value.

Our assessment of that value may be overly optimistic, so we look to pay significantly less than this amount to give ourselves a margin of safety. In today's markets, what we can offer is a sober analysis of value, and the courage to act on our views.

## VALUING THE INVESTMENT OPPORTUNITY

The relative outperformance of 'growth' as an investment style versus that of 'value' has been well documented in recent years. At the end of June, the 10-year total return of the 'value' style lagged the 'growth' style by its largest margin in 35 years, surpassing that of the underperformance witnessed during the dot-com bubble at the end of the 20th century. On a price-to-book basis, value stocks now stand at some of their deepest discount to growth stocks for the data we have available. While this may seem bleak on the face of it, there are now real value opportunities for investors across a range of markets and sectors. Rather than worry about market events outside of our control, the sole focus of a



value investor should be focused on assembling a collection of assets that we believe to be significantly undervalued.

## CONVICTION WILL PAY IN FUTURE

Investor confidence has been significantly reduced over this period and we have been working hard to position portfolios in a way that our investors can benefit significantly when we enter the next bull market. To do that requires remaining rational when those around you are at their most irrational. Our belief is that bottom-up, value managers are well suited to take advantage of the current market environment.

## GLOSSARY

**Price to Book** – Ratio of the market's share price of a company compared to the audited value of the company accounts.

**Bear Market** – Market decline of 20% or more over at least a two month period.

**Bull Market** – Market rise of 20% or more over at least a two month period.

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# STAND OUT FROM THE CROWD

The Seneca Global Income & Growth Trust plc aims:

- A multi-asset approach seeking returns from a wide range of investments
- Targetting a long term annualised investment return of 6% plus inflation\*
- Grow dividends in line with inflation



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The value of investments and any income may fluctuate and investors may not get back the full amount invested.

\*Seneca Investment Managers Ltd defines long term in relation to a typical investment cycle as one which averages 7-10 years, and in which returns from various asset classes are generally in line with their very long term averages. Inflation is measured by Consumer Price Index (CPI). There is no guarantee that a positive return will be achieved over this or any other period. There is no guarantee that the above aims will be achieved. Seneca Investment Managers Ltd does not offer advice to retail investors. If you are unsure of the suitability of this investment, take independent advice. Before investing you should refer to the Key Information Document (KID) for details of the principle risks and information on the trust's fees and expenses. Net Asset Value (NAV) performance may not be linked to share price performance, and shareholders could realise returns that are lower or higher in performance. The annual investment management charge and other charges are deducted from income and capital. The KID, Investor Disclosure Document and latest Annual Report are available in English at [www.senecaim.com](http://www.senecaim.com). Seneca Investment Managers Limited is the Investment Manager of the Trust (0151 906 2450) and is authorised and regulated by the Financial Conduct Authority and is registered in England No. 4325961 with its registered office at Tenth Floor, Horton House, Exchange Flags, Liverpool, L2 3YL. All calls are recorded. FP20 139.



# PROTECT YOUR PORTFOLIO

## FROM THE NEXT DOWNTURN

In recent weeks US indices have traded higher than at the start of the year, almost as if a global pandemic never happened. A few other markets have recovered nearly all of this year's lost territory, such as Germany's DAX index.

Markets are forward looking and are now eyeing the prospects for recovery and the capacity of a vaccine or new treatment to help lift us out of a Covid-19-induced malaise.

However, it would be naïve to think there is no chance of another correction either linked to coronavirus and its aftershocks or some other issue like rising unemployment, ballooning corporate debt, the US presidential elections or escalating tensions between the West and China.

We don't feel it is time to sit back and relax about markets. As such, more nervous investors might appreciate some insight into how to protect their portfolios from another downturn.

A summer or autumn correction looks plausible so rejigging your investments now could help to preserve some of your wealth and also give you the means by which to snap up any good stocks or funds if their price suddenly becomes a lot cheaper, just like we saw earlier this year.

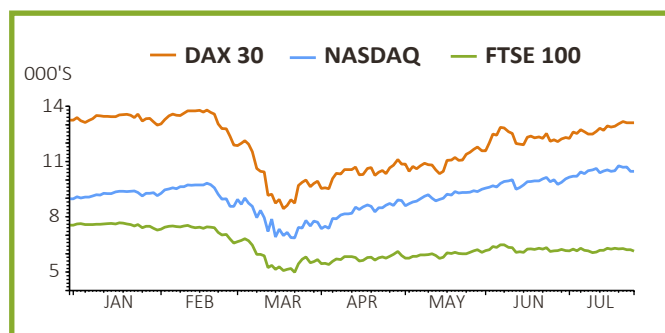
### HOW TO PREPARE FOR A DOWNTURN

In this article we discuss some ways of protecting your portfolio against further volatility. We talk about traditional things in which to invest for uncertain times as well as what you should be avoiding at all costs.

We also consult some experts on how they



By **Tom Sieber** Deputy Editor



go about managing clients' money in a volatile market and how you should think about asset allocation.

A crucial point to remember is that you shouldn't overreact to events. Anyone who sold equities in a panic when markets sold off in earnest in March would have crystallised a loss ahead of an extremely rapid recovery for much of the market (though not all).

For most of the stocks which didn't enjoy a recovery there are some key factors at play. Their area of business is likely to have been irreparably damaged or disrupted by the pandemic and/or they have a weak balance sheet and are therefore unable to weather a period of depressed demand.

If this is true for any names in your own portfolio you need to think carefully about whether they should still have a place within it. The shares may now be cheap but there's a good chance they will remain so or get even cheaper (potentially into oblivion) unless they

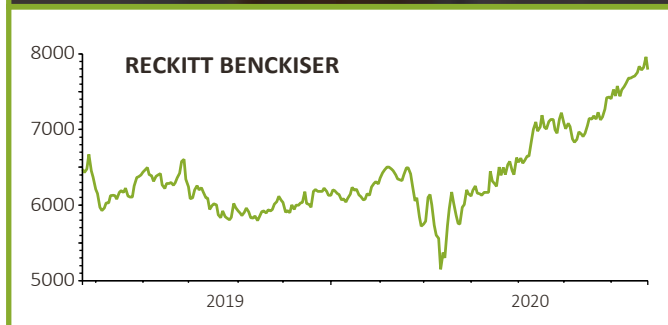


can demonstrate that balance sheet problems can be fixed or, if necessary, adapt to the new post-corona realities.

### A ROLE FOR CASH

One simple thing every investor could consider, beyond finding specific safe havens or long-term winners, is to build a pot of cash which can be used to buy into future dips in the market. Selling off stocks which aren't fit for the future could be a good start in terms of amassing some funds.

If the recent sell-off was any guide then indiscriminate selling created lots of opportunities to buy quality investments at knockdown prices. Despite being seen as a beneficiary of coronavirus due to its focus on health and hygiene products, even **Reckitt Benckiser (RB.)** sold off heavily, hitting a low of £51.30 in mid-March. At the time of writing it has recovered very well and trades at nearly £80.



Equally you shouldn't be buying into the momentum enjoyed by every perceived coronavirus winner. Vanguard's head of product specialism Mark Fitzgerald says: 'Buyer beware, be careful of being attracted by short-term performance. You want to have a look at the situation over three, five, seven, 10 or even 20 years to get a real sense of where to place your risk.'



### PORTFOLIO PROTECTION – WHAT TO BUY

#### BUY a capital preservation fund

Some of these products have a very good track record of protecting investors against loss. A great example is **Personal Assets Trust (PNL)** which delivered a 5.3% increase in net asset value in the year to April 2020 when the wider UK market fell 20%.

#### BUY a gold ETF

Gold has solid safe-haven credentials, particularly when measured over months or years. You can get low cost exposure from **iShares Physical Gold ETF (SGLN)** which has an ongoing charge of 0.19%.

#### BUY a quality-focused fund

While quality stocks don't tend to be cheap there is a reason they perform well over the long term.

Typically, they invest in companies delivering a product or service for which there is significant and growing demand. These companies should also enjoy strong barriers to entry and generate lots of cash flow to reinvest in the business, build a cash buffer for tough times and return to shareholders through dividends.

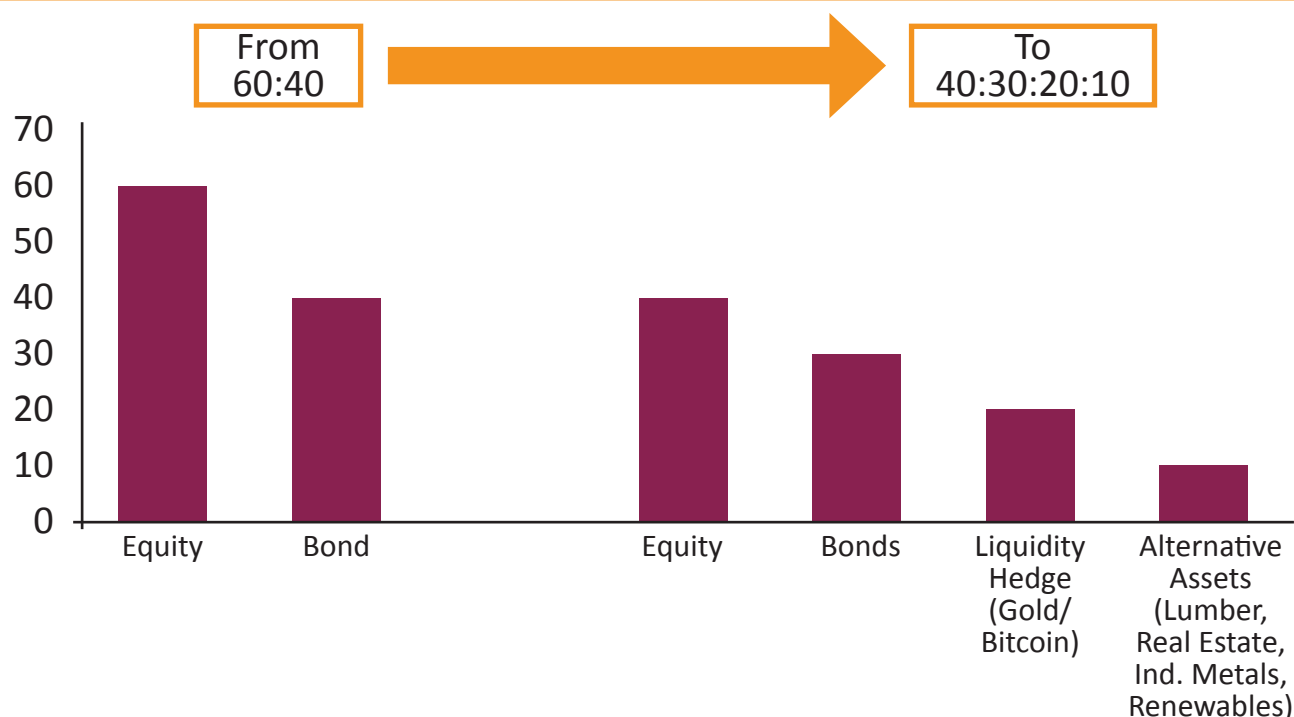
Investors looking for diversified exposure to quality firms with growth potential could consider mid-cap specialist **Smithson (SSON)**, run by asset manager Fundsmith.

#### BUY a strategic bond fund

When it comes to fixed income, flexibility is a good idea with some parts of the bond market offering very low returns. We like **Allianz Strategic Bond Fund (B06T936)** which leans on the significant expertise and resources in this area enjoyed by asset manager Allianz.



## UPDATING ASSET ALLOCATION FOR THE MODERN WORLD



Source: Berenberg

### ASSET ALLOCATION

Some observers think investors should change the way they think about asset allocation and that the traditional approach of having 60% of the portfolio in stocks and 40% in bonds might no longer be relevant.

Berenberg's equity strategist Jonathan Stubbs says a 40:30:20:10 approach might work better. This involves 40% in select equities, 30% in bonds, 20% in a 'liquidity' hedge like gold or bitcoin, and 10% in alternative assets such as industrial metals, renewables, lumber or certain categories of real estate.

In terms of the equity component, Stubbs adds: 'We see three key ways to future-proof portfolios: 1) fiscal activism; exposure to government spending plans; 2) ESG (environmental, social, governance) strategies; and 3) digital revolution covering existing applications and emerging technologies (video games, AI, cloud, VR, cyber security, etc).'

On the other side of the argument Vanguard's Fitzgerald thinks a 60/40 approach might prove more durable pointing out that by investing in a globally diversified portfolio of a large number of stocks and bonds you should gain exposure to businesses which are involved in the ownership and production of alternative assets like property and gold anyway.

You could consider a middle road between the

two with perhaps a 60% allocation to equities, 30% to bonds and 10% in alternative assets. If you're feeling more nervous perhaps have 5% in alternatives and 5% in cash.

### INFLATION-PROTECTED PRODUCTS

Lucy Coutts, investment director at wealth manager JM Finn, believes the best way to protect a portfolio is to hold companies with lots of free cash flow and high returns on capital. 'That was true before Covid-19 and it remains true today,' she remarks.

'In terms of asset allocation, I tend to have between 10% and 14% of my portfolio in index-linked gilts and US TIPS (treasury inflation-protected securities). I don't buy TIPS directly because of the tax treatment but instead use a hedged ETF which removes currency risk.'

Coutts believes the best performing asset classes in a downturn tend to be index-linked gilts, TIPS and farmland.

'If I'm feeling nervous, I will raise the cash level, typically I would have around 2% in cash.' As a wealth manager, Coutts she says tends to have clients' portfolios fully invested because she expects them to have cash reserves elsewhere. 'If I'm feeling particularly nervous though I might move to 7% in cash – which along with around 14% in TIPS and index-linked gilts means I have 20% that isn't equity related.'



## STEER CLEAR OF INDEBTED COMPANIES AND THOSE WHICH 'BURN' CASH

When markets turn south, investors have a natural tendency to look for cheap stocks which haven't been part of the bull run to use as a hiding place rather than sell out of the market completely.

However, stocks which look cheap on traditional measures such as price-to-earnings or dividend yield may be harbouring large amounts of debt which makes them much riskier than they seem at first glance.

We have previously discussed the need to avoid companies with both high levels of operational gearing – that is high fixed costs compared to their revenue – and high levels of financial gearing or debt.

When a company with high fixed costs doesn't get enough revenue to offset its costs, high debt levels mean the problem is compounded by high costs to service the debt. Eventually the firm will fail and

the debt holders will end up owning the equity while existing shareholders get nothing at all.

We suggest you screen the market to identify companies with high levels of debt compared to their equity capital and high levels of interest payments compared to the operating profits before interest costs.

Such companies represent a risk of permanent loss of capital if they end up being owned by the bondholders.

We would ignore investment trusts and financial firms including banks as customer deposits are effectively liabilities. We would also make allowances for firms with lots of leases as IFRS 16 now classifies them as debt rather than an operating cost.

As an example, pharmaceutical firm **Indivior (INDV)** – whose shares are up 124% year to date – would not be on our 'safe to buy' list.



### EXAMPLES OF NET DEBT RELATIVE TO MARKET CAP

Company	Market Cap	Net Debt	Proportion of net debt to equity
Finabl	£77m	£285m	370%
Rockrose Energy	£241m	£306m	127%
Indivior	£638m	£627m	98%
Gulf Keystone Petroleum	£216m	£89m	41%
Seeing Machines	£99m	£40m	40%
Xaar	£62m	£21m	33%
Allergy Therapeutics	£91m	£29m	32%
XLMedia	£53m	£16m	30%

Source: Sharepad, Shares



## INVESTING IN THE WEALTH PRESERVERS

Capital preservation trusts have delivered positive total returns over the ups and downs of the past 10 years, as the table shows, building on their formidable long-run performance records.

These specialist wealth preservers are not to be confused with so-called 'absolute return' funds. In theory the latter should protect your capital better than traditional funds or trusts given their ability to 'short' the market, yet many have failed to live up to their mandate of reducing downside risk during falling markets.

Capital preservation plays include **RIT Capital Partners (RCP)**, a defensive growth portfolio boasting an exceptional record since listing on the stock market in 1988, albeit down 12.8% year to date.

**Ruffer Investment Company (RICA)** has fared the best among capital preservation trusts in 2020 so far. It has delivered against its objective of preserving shareholder capital regardless of the market conditions, while also eking out some much-needed growth.

Despite significant market stress and economic uncertainty, its all-weather portfolio generated a net asset value total return of 10.1% for the 12 months to 30 June 2020. Ruffer not only protected capital in the sell-off in February and March, but also managed to capture the rebound since April, posting one of its strongest three month periods ever in the second quarter of 2020.

Though its shares were hit hard in early 2020, positive portfolio contributions came from credit protection, gold, index-linked bonds and option protection.

Another master at protecting and growing investors' money is **Capital Gearing Trust (CGT)**, which has a good track record of holding up during market sell-offs, including during the financial crisis. The trust's stated objectives are to preserve shareholders' real wealth (i.e. accounting for inflation) and achieve absolute total return over the medium to longer term.

Though there could be spells where the trust sees scant growth, it also means that when there's a market correction, shareholders' wealth should be in safe hands.

Capital Gearing's secret sauce is its defensive mix of assets split between equities (via other investment trusts and exchange-traded funds), index-linked government bonds, and cash and short-duration bond-like securities.

### CAPITAL PRESERVATION VEHICLES TOTAL RETURN DURING MARKET DOWNTURNS

#### 1 Jan 2020 - 23 July 2020

Ruffer	8.0%
Personal Assets Trust	6.1%
Capital Gearing	3.6%
RIT Capital	-12.8%
MSCI World	-0.6%
FTSE All-Share	-16.7%

#### 1 May 2015 - 30 April 2016

Personal Assets Trust	8.1%
RIT Capital	6.2%
Capital Gearing	3.4%
Ruffer	-5.4%
MSCI World	-5.3%
FTSE All-Share	-6.0%

#### 1 June 2007 - 28 February 2009

Ruffer	35.3%
Capital Gearing	12.9%
Personal Assets Trust	-14.1%
RIT Capital	-22.0%
FTSE All-Share	-40.6%
MSCI World	-50.6%

### CAPITAL PRESERVATION VEHICLES TOTAL RETURN OVER PAST 10 YEARS

RIT Capital	89.9%
Personal Assets Trust	78.9%
Capital Gearing	70.6%
Ruffer	41.4%
MSCI World	169.7%
FTSE All-Share	79.7%

Source: FE Fundinfo

Elsewhere, **Personal Assets Trust (PNL)** focuses on high quality companies that generate sustainable returns over the long run. Its stated investment policy is 'to protect and increase (in that order) the value of shareholders' funds per share over the long term'.

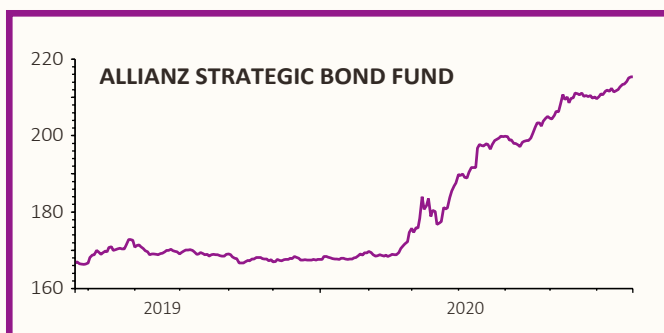
Aimed squarely at the cautious investor, the wealth preserver maintains high levels of liquidity, with substantial exposure to cash, gold bullion, UK gilts and US Treasury inflation-protected securities. During a tumultuous financial year to April 2020, the fund's net asset value per share rose 5.3%, comfortably outperforming a 19.8% fall for the FTSE All-Share Index.

We suggest you buy Personal Assets Trust.



## ALTERNATIVES TO EQUITIES

### A STRATEGIC APPROACH TO BONDS



Historically bonds have provided investors with some protection during periods of falling share prices. This is due to central bank actions to loosen monetary policy and lower short-term interest rates during recessions. Bond prices move in the opposite direction to yields, so lower yields provide investors with capital gains.

However with UK Government bond yields negative all the way out to five years and the 10-year gilt yielding only 0.14%, the prospect for further capital gains looks slim according to fund managers at Artemis.

A better option is to look at strategic bond funds because these generally have a more flexible mandate to search out opportunities across global sovereign bonds as well as invest in corporate bonds. Effectively the risk of the portfolio can be dialled up or down according to the perceived opportunities.

One example is the **Allianz Strategic Bond Fund (B06T936)** managed by Mike Riddell and Kacper Brzezniak and backed up by the significant resources of Allianz Global investors, one of the largest bond managers in the world.

The managers have a clear goal to position the £1.7 billion portfolio to ensure it provides good diversification benefits. Over the last three years the fund has delivered an average annual return of 9.2% compared with 3% for the benchmark.

We suggest you buy Allianz Strategic Bond Fund.

### WHY YOU MAY WANT TO BUY A GOLD ETF RATHER THAN A GOLD MINER

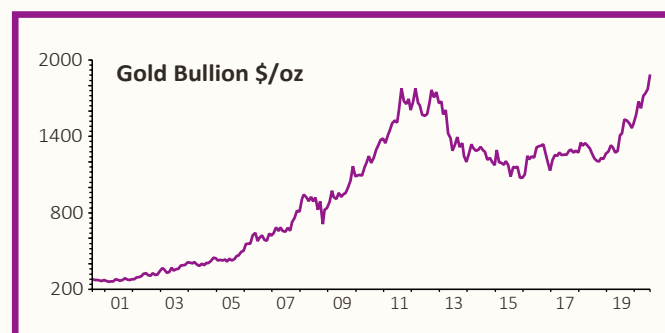
Gold has proven to be a reliable safe haven in tough times. This is often not the case in the initial stages of a sell-off when people are keen to convert to cash and gold is quite an easy thing



to sell but measured over a longer timeframe it can deliver.

In the financial crisis gold actually fell initially but by 2011 had hit a new record level of \$1,920 per ounce. As we write the precious metal is above \$1,890 and threatening to set a new high. For the more cautious investor it makes sense to access this market through an exchange-traded fund than a gold miner in order to avoid operational, financial and geopolitical risk.

While the risk could go both ways – you could benefit if a miner grows production, for example – it is probably more important to limit your exposure to anything going wrong given you are buying gold specifically for the downside protection it offers.



There are several gold ETFs listed in London, many of which offer the added security of being backed by gold bullion stored in a vault. We suggest you buy **iShares Physical Gold (SGLN)**.

**DISCLAIMER:** Editor Daniel Coatsworth owns shares in Smithson referenced in this article



# RESILIENT INCOME IN TOUGH TIMES

## BLACKROCK INCOME AND GROWTH INVESTMENT TRUST PLC

***David Goldman and Adam Avigdori, Co-Managers of the BlackRock Income and Growth Investment Trust plc, believe these are tough times for dividend seekers in the UK, but active management can help navigate this difficult environment.***



**David Goldman  
and Adam Avigdori**  
Co-Managers, BlackRock  
Income and Growth  
Investment Trust plc

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

These have been uncertain times for those who need an income from their investments. Many companies have postponed or cancelled their dividend payouts in the wake of the COVID-19 outbreak. The economic outlook remains uncertain even as the immediate crisis has passed, with other issues such as US/China tensions and Brexit coming to the fore once again.

In general, the companies in our portfolio have been more resilient in their payouts than the market as a whole. Many have postponed dividends until their earnings situation is clearer, but we remain confident that many will return to the dividend list. Our focus on stock selection has significantly helped the resilience of the portfolio.

### FREE CASH FLOW

For us, it is vitally important that a business is able to generate cash consistently over time. This dictates its ability to pay an attractive and growing dividend over the longer term. Inflation-beating dividend growth is best achieved from companies that are able to grow free cash flow.

If companies have high levels of free cash flow, they can reinvest back into the business, ensuring long-term growth. Too many companies in the UK market pay dividends at the expense of growth, or – worse still – from debt. We want to see companies investing for the future. This should not be incompatible with paying a dividend.

### SELECTIVITY

Dividends are a promise from companies, not an obligation. There needs to be a willingness to pay a growing dividend



on the part of the management team. In the current environment, they also need to be allowed to pay. We are seeing this today in the financial sector, where banks and other companies have been prevented from making dividend payments, either because of government intervention or because they have taken government support.

Selectivity is vital. We want companies with strong barriers to entry, with something in the products and services they provide that differentiates them. This type of business has been able to maintain and grow its dividend, some of them even through the crisis. As it stands, we have a higher weighting in consumer goods and consumer services. We like companies that can compound cash flow over time, and this is an area where we find many stocks that meet our criteria.

### INVESTMENT OPPORTUNITIES

This crisis and the dislocation in the market from the sell-off we saw in the first quarter provided us with significant opportunities to buy high quality franchises at lower valuations. Undoubtedly, some companies were hit hard by the crisis, but often raising additional funds has provided the balance sheet support they have needed to get them through this challenging period. The key, though, is to invest in those businesses with cyclical as opposed to structural problems; the former is likely to survive and could produce accretive returns for the portfolio, the latter will not.

More recently, the Board took the decision to allow up to 5% of the trust to be invested in companies listed outside the UK. There is a multitude of reasons why we proposed to invest in international equities. Firstly, it allows us to access attractive themes unavailable in the UK, to invest in more attractive international competitors than their UK peers, as well to benefit from other yield enhancers for the income of the portfolio.

### ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG)

Sustainability is a crucial consideration for us. We believe that ESG factors and practices are intrinsic to a company's long-term profitability, cash generation and risk profile. Our fundamental research incorporates our assessment of ESG factors and trends, such as decarbonisation, as well as the risks and opportunities that result from a company's ESG practices. Our search for sustainable free cash flow leads us to companies that account for ESG trends when allocating capital, promote sustainable relationships with all their stakeholders and operate with clear processes to mitigate risks.



One big certainty for us is that post this crisis, the role and importance of ESG will be enhanced. Already in meetings, and as a team, we have been in contact with approximately 760 companies year-to-date, management and boards are far more aware of their role in society and their ability to affect change. Even for those significantly financially impaired like Whitbread are still embracing good behaviours by opening up their empty hotels to house essential workers and NHS staff. Unilever has committed a huge financial package of nearly US \$500m in goods and cash to help deliver essential items to places where it is needed most. They have also brought forward all their payments to small or medium-sized enterprises (SMEs) to help them with working capital. We expect that this crisis will deepen the corporate world's role in their employees' lives, in their communities and in society.

## INVESTMENT TRUST STRUCTURE

The investment trust structure adds flexibility in a crisis. For example, we have used gearing – borrowing to invest – effectively during this crisis. We took gearing lower in early 2020 because we were worried about market valuations, but have since pushed it up to 4-5%, which may help with both dividend and capital growth.

The Board is committed to using the Trust's reserves to

support dividends to shareholders. The Trust has one of the strongest reserves in equity income sector. We have built this over time to ensure that we can sustain payouts to our shareholders during difficult times, just like the one we are experiencing today.

**Risk:** Reference to the names of each company mentioned in this communication is merely for explaining the investment strategy and should not be construed as investment advice or investment recommendation of those companies.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or financial product or to adopt any investment strategy. Unless otherwise stated all data is sourced from BlackRock as at July 2020.

For more information on this Trust and how to access the opportunities presented by the income and growth sector, please visit: [www.blackrock.com/uk/brig](http://www.blackrock.com/uk/brig)

**TO INVEST IN THIS TRUST  
CLICK HERE**



## Risk Warnings

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

## Trust Specific Risks

**Liquidity risk:** The Fund's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Fund may not be able to realise the investment at the latest market price or at a price considered fair.

**Gearing risk:** Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

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ID: MKTGH0720E-1238041-4/4





# The silver price is cheap relative to gold

But silver miners aren't quite the bargain relative to the metal

**T**he Silver Surfer was the creation of Marvel Comics legend Jack Kirby and the character acted as the herald of Galactus, the devourer of planets. This intergalactic super-being was usually fended off by the Fantastic Four or The Avengers.

From the point of view of investors, inflation devours wealth as scarily as Galactus consumed solar systems. Rather than turn to superheroes for protection against this potential threat, markets are turning toward something else known for being nearly indestructible, precious metals – principally gold and silver.

At the time of writing gold is setting new record highs above \$1,900 an ounce but at \$24 an ounce silver is still trading way below its prior peaks of 2011 and 1979, even if silver's 34% year-to-date gain in 2020 outpaces that of gold by several percentage points.

## PRECIOUS HAVENS

Precious metals tend to arouse strong feelings among investors. Some investors love them as a potential hedge against inflation, some against deflation and some against unforeseeable disasters and market dislocations, while others detest them, viewing gold in particular as a barbarous relic or inert useless lump.

But bulls are putting bears to flight right now and there may be three possible reasons why gold and silver are both doing well.

First, the market may be pricing in the almost unthinkable return of inflation, thanks to rampant central bank money creation through quantitative easing (QE) schemes, governments' accumulation of ever-higher deficits, supply-side dislocation thanks to Covid-19 and possibly firms putting up their prices to help them meet the additional costs of

staying in business in a post-pandemic world.

A five-year forward expectation for inflation of 1.67% in the US is hardly earth-shattering stuff, compared to the double-digit rates of the 1970s and early 1980s, but it does seem as if investors are becoming more wary of inflation.

## INFLATION EXPECTATIONS ARE STARTING TO TICK HIGHER AGAIN



Source: FRED – St. Louis Federal Reserve database

Second, so-called 'Austrian school' economists do not define inflation by price changes, but change in money supply, relative to the volume of services and goods produced. The 24% year-on-year surge in US M2 money stock will have anyone who follows their theories on a state of high alert.

Third, related to the money supply, central bank money creation and higher government deficits could be driving fears of monetary debasement, prompting a rush to perceived havens and stores of value such as gold and to a lesser degree silver.

The US Federal Reserve has ramped up QE in 2020 in response to the pandemic, taking its total assets from \$4 trillion to \$7 trillion, through a







### BIG INCREASE IN MONEY SUPPLY



series of programmes designed to buy a wide range of financial instruments.

Gold and silver surged between 2008 and 2011 as the Fed ran its first three rounds of QE but they then lost ground as it looked like the monetary authorities had regained control of the economic situation.

The pandemic may have changed all that, and the cost of keeping the show on the road this time around has already been much higher. One question that buyers of gold may already be asking themselves is what action will be taken by the Fed and other central banks next time a recession hits, as the system will feature even more debt and potentially be even more susceptible to an unexpected shock.

### HOT STUFF

There is a fourth angle which pertains to silver only. Unlike gold, silver has industrial uses and as such is a more 'cyclical' play, because it is the best conductor of all metals and has antimicrobial attributes which make it a perfect biocide.

Demand from the traditional film photography industry is probably all but gone but these chemical properties means silver is ideal for the medical equipment, electronics, water purification and solar power industries.

As the world focuses more on renewable energy, solar panels could be a driver of silver demand. Whether this proves more potent than demand for a haven remains to be seen, but historical data does suggest silver is trading cheaply relative

to gold.

The gold/silver price ratio has average 56 since 1970 but an ounce of gold currently trades at 80 times the price of an ounce of silver.

### SILVER LOOKS CHEAP RELATIVE TO GOLD



While the HUI Golds Bugs index trades below its average ratio to the metal price, silver miners do not look especially cheap compared to the physical commodity, based on the relationship between the metal and the Solactive Silver Miners index.

That benchmark has a fairly limited history and silver miners traded a lot more expensively relative to the metal in 2008 and 2011, so investors who prefer miners to metal still have much to ponder.

### SILVER MINERS DO NOT LOOK UNDULY CHEAP RELATIVE TO THE METAL, ACCORDING TO HISTORIC NORMS



There is no guarantee that silver's run will continue – if Covid-19 is beaten and the economy bounces back more strongly than hoped then the appeal of haven assets might not be anywhere near as strong.



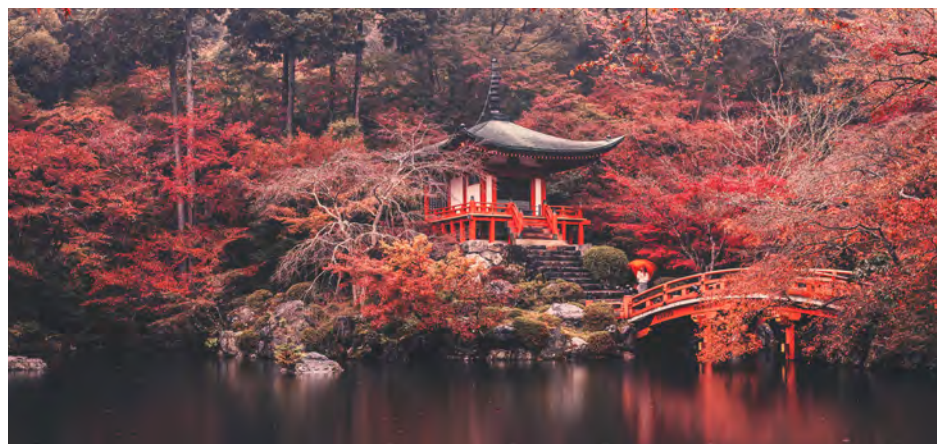
# Why growth and income are both big in Japan

We look at funds and investment trusts that can help you invest in the best firms the Japanese stock market has to offer

**A**lthough the Japanese economy and its corporates haven't escaped the effects of coronavirus, the number of COVID-19 cases has been relatively contained in Japan and the government has not had to resort to the extreme lockdown measures seen elsewhere. This likely explains why the Japanese stock market has been relatively resilient compared to others globally.

Yes, the pandemic-driven postponement of the Olympics is not ideal and will impact sectors such as hotels and advertising, but the effects are likely to be far milder than the full cancellation of such a massive sporting event would have been.

As Hisashi Arakawa, a manager of the **Aberdeen Japan Investment Trust (AJIT)**, informed *Shares*: 'Whilst fiscal and monetary stimuli will help to support the economy, the more important factor will be



how quickly infections have been contained and economic activity can be restored.

'The outlook therefore remains uncertain, at least in the near term, but Japanese corporates generally retain strong balance sheets with businesses generally being cash rich. We believe most of them will be able to survive the crisis.'

## REASONS TO LIKE JAPAN

Japan is overlooked by many investors, some with hang-ups about its ageing, falling

population, others put off by the preponderance of banks, car makers and office equipment companies that populate the stock market.

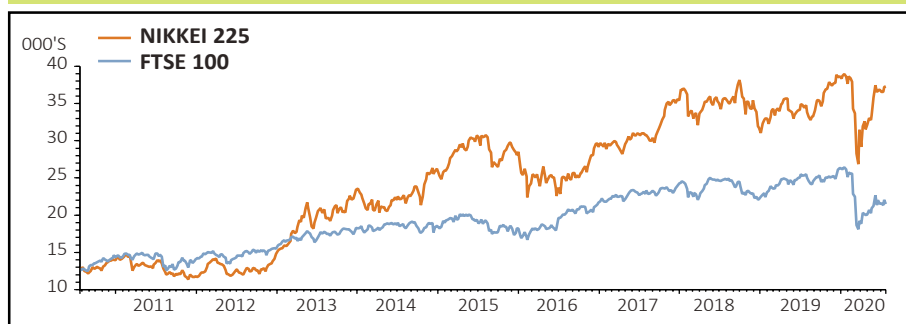
But this is a shame since the Japanese market is home to many thriving world-class companies in fields such as robotics, automation, medical innovation, semiconductors and consumer goods.

## ATTRACTIVE VALUATIONS AND YIELDS

Japanese shares are cheap by historic metrics and many have attractive dividend yields which offer greater surety than in other developed economies, where dividends have been cancelled or cut by cash-strapped companies.

Rather than select individual Japanese stocks, UK investors should invest in the region through funds, particularly actively managed portfolios whose managers have

## JAPAN'S STOCK MARKET HAS OUTPERFORMED THE UK OVER THE PAST DECADE





boots on the ground, access to management and an understanding of Japanese business culture.

They include country specialist investment trusts, nearly all of whom trade on a discount to net asset value (NAV) in both the Association of Investment Companies' (AIC) Japan and Japanese Smaller Companies sectors.

### INVESTMENT TRUST OPTIONS

The big beasts by total assets are **Baillie Gifford Japan (BGFD)**, the best 10-year performer on a share price total return basis, and **JPMorgan Japanese Investment Trust (JFI)**, a recent [Shares Great Ideas](#) selection trading on an attractive 9.6% discount.

JPMorgan Japanese is first and foremost a capital growth-focused fund and boasts a five-star Morningstar rating. Managers Nicholas Weindling and Miyako Urabe seek the most attractively valued Japanese

investment themes and companies in what remains an under-researched stock market.

Weindling says the pandemic has accelerated many of the themes to which JPMorgan Japanese already had exposure. The managers focus on quality companies with strong cash flows and ones that boast strong future growth prospects and bring investors exposure to Japan's new products, technologies and markets.

### UNTAPPED POTENTIAL

Another option among Japanese-focused investment trusts is the Nicholas Price-managed **Fidelity Japan Trust (FJV)**, which uses local know-how to spot untapped potential in the country.

With around 90% of Japan's small and mid-sized companies receiving little or no analyst coverage, Price and his team of analysts carry out detailed research that allows them to

pick stocks that are often under the radar.

The trust offers exposure to market share gainers that are well positioned to emerge from the current pandemic-driven downturn in better shape than their competitors. Names in the portfolio include factory automation business Keyence and musical instruments-to-electronic devices maker Yamaha.

Two relatively new trust launches are **AVI Japan Opportunity Trust (AJOT)**, managed by Asset Value Investors' Joe Bauernfreund, who looks for asset-rich companies with the ability to increase shareholder returns through improved corporate governance, and **Nippon Active Value (NAVF)**, an activist investor in smaller Japanese companies.

### SOURCES OF INCOME

**CC Japan Income & Growth (CCJI)** trades on a 13.2% NAV discount and offers a 3.8% dividend yield underpinned by a tighter focus on shareholder returns in Japan. The wide discount is a feature of a disappointing recent NAV performance.

The only Japanese equity income-focused trust on the London market, CC Japan Income & Growth seeks to provide dividend income combined with capital growth from companies listed in Japan.

Manager Richard Aston focuses on shareholder-friendly, high-quality companies with resilient cash flows and strong management teams. He sees significant scope for future income growth as ongoing corporate governance reforms in Japan have improved

### INVESTMENT TRUSTS

Sector: AIC Japan	Discount/ Premium (%)	5 year share price total return (%)
Fidelity Japan	-9.8	109.5
JPMorgan Japanese	-9.6	88.1
Baillie Gifford Japan	-5.6	70.7
Aberdeen Japan	-13.4	22.4
Schroder Japan Growth	-17.3	14.6
CC Japan Income & Growth	-13.2	n/a
Sector: AIC Japanese Smaller Companies	Discount/ Premium (%)	5 year share price total return (%)
Baillie Gifford Shin Nippon	-2.4	128.1
JPMorgan Japan Smaller Companies	-12.5	101.5
Atlantis Japan Growth	-18	64.1
Nippon Active Value	-5.2	n/a
AVI Japan Opportunity	1.2	n/a

Source: The AIC/Morningstar, 24 July 2020



conditions for income investors in what has traditionally been a challenging market.

CC Japan Income & Growth this year intends to at least match the previous year's 4.5p dividend. Holdings include mobile phone operator Softbank, optical technology company Hoya and Sumitomo Mitsui Financial.

Also trading on a wide discount to NAV (13.4%) is **Aberdeen Japan Investment Trust (AJIT)**, which has recovered nearly all the share price losses caused by the global market sell-off earlier this year. It is focused on high-quality businesses with tried-and-tested management teams, wide competitive moats and solid balance sheets.

Portfolio holdings include Elecom, a maker of keyboards and cables. 'The fabless maker has always had a good procurement system in place and during the pandemic it has been able to switch suppliers and modes of transportation flexibly to meet the surge in demand for its products as more people worked from home,' explains Aberdeen's Hisashi Arakawa.

The trust is also invested in Nippon Paint, the number one paints maker in many countries across Asia including China. Arakawa says it is well known for treating employees well. 'This time around it was quick in securing employee safety as well. This helped it resume operations quickly as demand in China began to recover.'

Aberdeen Japan holds work-from-home beneficiaries that have delivered positive earnings growth through the pandemic such as network

OPEN-ENDED FUNDS	
SECTOR: IA JAPAN - TOP 5 BEST PERFORMERS	5 YEAR TOTAL RETURN (%)
Legg Mason IF Japan Equity X in GB	154.6
Comgest Growth Japan U Acc GBP in GB	124.2
Lindsell Train Japanese Equity B Sterling Quoted GBP TR in GB	113.8
Nomura Japan High Conviction I JPY in GB	106.4
JPM Japan C Acc in GB	101.7
SECTOR: IA JAPANESE SMALLER COMPANIES - TOP 5 BEST PERFORMERS	5 YEAR TOTAL RETURN (%)
Baillie Gifford Japanese Smaller Companies B Acc in GB	122.6
Invesco Japanese Smaller Companies (UK) Z Acc in GB	101.2
BNY Mellon Japan Small Cap Equity Focus W GBP in GB	86.3
Janus Henderson Horizon Japanese Smaller Companies H2 Acc USD in GB	72.5
BlackRock GF Japan Small & MidCap Opportunities D2 JPY in GB	67.1

Source: FE Fundinfo, 24 July 2020

integrator NEC Networks & System Integration, IT solution provider Otsuka, online business contact management service provider Sansan and furniture maker Nitori.

The trust also holds Chugai Pharmaceutical, which delivered 57% operating profit growth in the first quarter of 2020. One of the company's drugs is being trialled as a potential treatment for critical cases of COVID-19.

## INVESTMENT FUNDS

In the open-ended funds universe, IA Japan sector star performers on a five-year view include **Lindsell Train Japanese Equity (B3MSSB9)**, a fund awarded a five-crown rating by FE fundinfo for its superior performance in terms of stock picking, consistency and risk control.

Also adorned with a quintet of FE Fundinfo crowns is **Comgest Growth Japan (BYYLQ08)**, ranked first quartile on a one, three and five-year view, while the sector's

other strong performers include **Nomura Japan High Conviction** and **Legg Mason IF Japan Equity**.

Within the IA Japanese Smaller Companies sector, the stand-out five-year performer is **Baillie Gifford Japanese Smaller Companies (0601492)**, according to Fe Fundinfo data.

Managed by Praveen Kumar, this £860 million OEIC generates growth by investing in innovative business models, companies disrupting traditional Japanese business practices, or Japanese companies growing fast outside Japan.

As at 30 June the fund's active share, a measure of how much a fund differs from the benchmark, was 95%, demonstrating that Kumar dares to be different in terms of picking long-term winners for the fund.



By James Crux  
Funds and Investment  
Trusts Editor



# An investment rose by any other name

*In an unprecedented period of low-to-no growth, equity income has been the sanctuary of many an investor portfolio. Even then, good returns come down, largely, to good stock picking.*

How many investors long for the halcyon days – finding an undervalued market with near double-digit dividend growth increases year-on-year, mid-thirty percent growth in payout ratios and buyback activity on the up? We can all dream of course... yet this market does actually exist and it is, of course, Japan, yet mention that before detailing the aforementioned fundamentals and some investors balk.

It is understandable to a certain extent. After all, for decades, many have been citing Japan as the land of investment opportunity only to be disappointed time and time again. However, more and more investors are beginning to look to Japanese equities in the search for income. So what has caused this apparent turnaround?

There have been notable improvements in shareholder returns in Japan since the early 2000s, as an upswing in the Japanese economy and business restructuring improved corporate free cash flows. Dialogue between corporate management and their shareholders has also markedly improved. Nowhere is this more evident than in the increasing distributions to shareholders in the form of dividends to share buybacks. With the Stewardship and Corporate Governance Codes in place, backed up by the policies of President Abe (Abenomics), simply retaining this cash is becoming less acceptable.

As a result, the steady improvement in annual shareholder returns and the greater stability of these returns could justify a rerating of Japanese equities whose yields continue to grow faster than both their US and European counterparts.

It is due to many years of management 'inefficiency' that the opportunity in Japan is now significant and corporate balance sheets, in aggregate, are healthy and supported by strong annual free cash flow. This is a financially secure underlying position providing the basis for many companies to offer improved returns. With annual corporate cash flow at record levels, at an aggregate level Japanese equities have delivered the fastest dividend growth within the major economic regions in the last six years.

We identify exciting investment opportunities as the consensus behaviour in Japan evolves to a more consistent trend more easily comparable to those historically associated with Western developed markets. We look for companies that complement expansive business strategies with the need of their shareholders to be rewarded with appropriate annual distributions; those that reflect the underlying growth but also recognise the value to investors of the sustainability of dividends and share buy backs.

The opportunities are many and reflect the fact that Japan has a large number of internationally renowned industry leaders, as well as prominent participants in the growth of other parts of Asia and dominant domestic players across a wide range of industries. These opportunities are not confined to large cap companies, alone with attractive candidates identified in the mid and small cap areas where management incentives are often more closely aligned with those of minority shareholders.

Financial sectors are also noteworthy of discussion. Over the past few years, the leading companies in the banking and insurance sectors have been at the forefront of the improvements in shareholder return and consequently offer a very different outlook.

And finally, demographics have long been cited as unfavourable in Japan though the government has been encouraging companies to adopt counter measures to adapt to the changes under Prime Minister Abe's watchful eye. Therein lie the investment opportunities. In the case of Japan, the 'labour crunch', as it is often called, has presented some compelling investment opportunities particularly in the outsourced labour market. Prime Minister Abe has also made increasing female participation in the Japanese workforce an essential element of his efforts to revive the Japanese economy.

*Richard Aston*

*Manager - CC Japan Growth & Income Trust*

ASSET MANAGEMENT LLP

**CouplandCardiff**



# The growth of China's consumer economy

The country could stoke domestic demand to become more self-reliant

**I**n the last decade or more the Chinese economy has undergone a significant transition as it moves away from an infrastructure-driven and export-reliant economy to one fired by domestic consumption.

This change can be tracked by looking at how the country's current account surplus has moved to a deficit. Broadly speaking a current account surplus means an economy is exporting a greater value of goods and services than it is importing.

Having peaked in 2008 when China truly lived up to its reputation as 'The World's Factory' the surplus has declined significantly.

There are several factors underpinning the growth of the consumer economy, one being a natural offshoot of the maturation of the Chinese



economy. A larger Chinese middle class is more likely to have disposable income to spend on products and services at home.

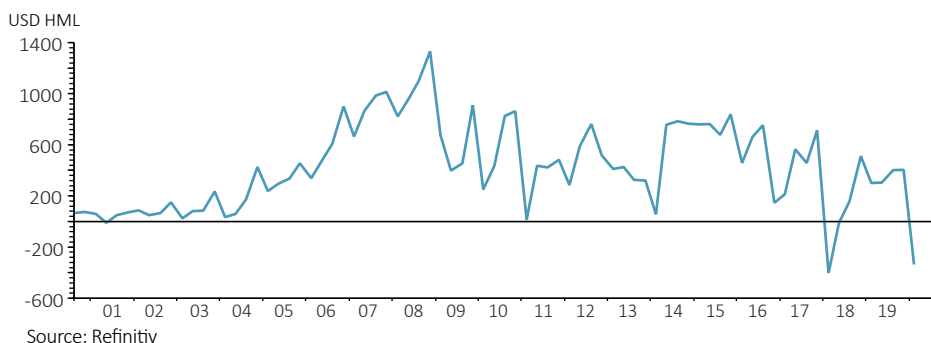
In the short term at least, exports have been hit by the coronavirus crisis as demand has dried up and trade

routes have been affected by lockdown restrictions. Chinese tourists who might have taken their renminbi overseas are also shopping domestically instead.

There are signs China wants to move further in this direction as it looks to become more self-reliant. This may reflect pressure on the country and its businesses from other countries concerned about its growing global influence, and about its recent actions in Hong Kong and in the immediate aftermath of the Covid-19 outbreak.

A report by the Chinese Academy of Social Sciences, a think tank closely affiliated to the state, suggests the next five-year policy plan – due for 2021 – should prioritise home-grown innovation and look to tap into a substantial domestic market.

## CHINA CURRENT ACCOUNT BALANCE



**FRANKLIN  
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This outlook is part of a series being sponsored by Templeton Emerging Markets Investment Trust. For more information on the trust, visit [here](#)



# Emerging markets: Views from the experts

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



**1.** Geopolitical risk returned to the forefront as border tensions between China and India heightened, with the latter imposing economic measures including banning 50 Chinese apps and cancelling government contracts with Chinese contractors.

While **geopolitical headlines relating to China** have created noise and near-term uncertainty in recent years, they are unlikely to derail China from its path to recovery, in our view. The latest stimulus measures, including sizable fiscal spending, announced at the National Party Congress in late May, should provide positive catalysts to the domestic recovery in the nearer term.

The government did not set an explicit growth target for China's economy for 2020 due to the high level of uncertainty around the pandemic and global situation. However, it emphasised that employment as well as social measures (protecting basic livelihood) will be key priorities this year.

**2.** The COVID-19 pandemic continues to add momentum to the discussion on **deglobalisation**. This term has many potential meanings. It could simply refer to the re-shoring of certain strategic businesses, a reduced reliance on foreign supply chains, or the creation and/or support of national champions. However, some portray it to mean something more material. For instance, the collapse of international trade agreements and the organizations and associations that oversee them.

So far, there is little evidence to suggest the latter is the case. Our view is that not all countries are keen to disrupt existing trade relationships.

**3.** As we continue to shift toward a knowledge-based global economy, we are seeing a rise in the importance of intangible assets. In fact, several emerging markets are now leading in terms of **innovation** in areas such as e-commerce, e-learning, digital payments and mobile banking.

## TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

### Portfolio Managers



**Chetan Sehgal**  
Singapore



**Andrew Ness**  
Edinburgh

TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.



# How do I use my pension in retirement?

The essential points to consider with a decumulation strategy



**P**eople spend most of their lifetime with their savings goals focused on building up their pension pots, but what about when it comes to drawing down that money in retirement? What changes do you need to make to your investment strategy and how do you manage the withdrawals?

After 30, 40 or even 50 years of working, people aim to have built up a decent size pension pot, having contributed regularly and hopefully made some savvy

investment decisions along the way.

But once you come to retire you need to work out how to use that pot most effectively. You'll need to think about how you invest it, how much risk you want to take and how long you need it to last.

One option is to use some or all the pot to buy an annuity, which gives you an income for life. Annuity rates are currently low so might not appeal to some people, and for the purposes of this article we'll assume you don't want to take that route.

you want to make sure you put enough cash to one side to pay yourself an income for a while.

The last thing you want is markets falling and you having to sell down some investments in order to pay your electricity bill that month or pay for the food shop.

You should have at least a year's income set aside in a cash account for you to access but you might want to have more so you're not at the mercy of falling markets.

The more you have in cash the more money you have earning little interest – so it's a balancing act.

On top of this you should also have your emergency pot in cash – this is the money put to one side should the boiler blow up or the car break down, so you've got money to hand in a crisis. With this cash you want to try to

“Annuity rates are currently low so might not appeal to some people”

**IF YOU'RE KEEPING YOUR MONEY INVESTED, YOU NEED TO THINK ABOUT A FEW THINGS:**

- **How much cash?**

If you're using this pot as your main (or only) source of income



get the highest interest possible so it's at least earning you some money until you spend it. However, don't lock it away in a lengthy fixed term account where you must wait ages to access the cash.

- **How do I change my investments?**

Until now you will likely have been focused entirely on growing your pot as much as possible, within your own risk limits. But that might change now you're relying on this money to pay the bills.

One option is to switch to an income focus, whereby you invest a proportion of your pension in income-generating assets or funds. This means that you can draw off the natural income from your portfolio and leave the capital untouched.

Another approach is to keep investing for the best growth you can find and just take a chunk of the capital out when you make your withdrawal. You could also do a combination of the two.

But you also need to think about your risk tolerance. Now you rely on this money to cover living costs you might want to dial down the risk in your portfolio.

If you're worried about how a big fall in stock markets might affect your lifestyle then it could be smart to put more of the money in assets that are considered safer, such as gold, bonds and cash. This is an entirely personal decision and depends how long you need the money to last, what other sources of income you have and your risk appetite.

For example, someone who



has a very low risk tolerance and doesn't want to worry about their money falling in value might have around 50% in bonds, another 10% in gold, 20% in cash and the remaining 20% in the stock market.

Clearly the returns on this portfolio might be lower over the long term than one invested 100% in equity markets, but that might be a perfectly fine trade-off for someone.

In contrast, someone else who doesn't mind a bit more risk and exposure to stock markets might switch the bond and equity allocations to have 50% in stock markets and 20% in bonds.

Inflation is the big thing you need to bear in mind, as you'll want your money to at least keep pace with a rising cost of living. Failing to beat the rate of inflation effectively means losing money in real terms. Inflation is currently low, standing at 0.6% in June, but the Bank of England aims to have it at 2% so that's

probably a better benchmark for you to consider.

- **How much should I withdraw?**

It's tricky to know how much money to take as an income. Retirement can often last for longer than the time you spend building up the pot, so it's a difficult balancing act to make sure you have enough money to enjoy retirement but not withdraw too much that you run out of money before you die.

The previous rule of thumb was withdrawing 4% of your portfolio a year, which went on the premise that you could make your money grow by 4% a year and so you wouldn't be depleting your pot.

In order to come up with a more appropriate number, first you need to think about life expectancy, as we're all living longer. Look at how old you are when you retire and the average life expectancy of someone your





age to give you a guide – clearly you live longer or shorter than this so don't see it as gospel.

Then you need to ask yourself whether you plan to exhaust every last penny of your pension or whether you plan to leave some to your children, spouse, family or the local cats home – this will have a big impact on how much you take.

For example, someone with a £500,000 pension pot who is likely to live for another 30 years after retirement and plans for their money to grow at around 4% a year could take out £25,000 each year and still have £245,000 in their pot after 30 years to leave to beneficiaries.

Alternatively, they could take an income of £29,500 a year and spend every penny by the time they reach that 30-year mark.

If someone had the same pot size and same life expectancy but wanted to take less risk and thought their money might only keep pace with inflation, at 2%, they could take £17,000 income a year and still have around half the pot left after 30 years. Or they could take £23,000 income a year and spend every penny in the pot.



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

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# How much can I claim for pensions tax relief?

AJ Bell pensions expert Tom Selby explains the rules

*I previously worked for the NHS and decided a couple of years ago to leave and take my NHS pension at age 60. I then took on a role with a university.*

*Over the last few years, I have been making SIPP contributions and used up most of my previous years' carry forward allowances to claim tax relief at the higher rate through writing direct to HMRC.*

*In tax year 2019/2020, my total income puts me in the higher bracket (41% Scotland), I have already made a contribution to my SIPP for that year which was less than my earned income (£23,000), and received basic-rate tax relief.*

*As a higher-rate tax payer am I eligible to write to HMRC and claim the additional tax relief at the higher rate?*

**Alan**



**Tom Selby**  
AJ Bell  
Senior Analyst says:

For most people the amount they can save each year in a pension is limited to the lower of 100% of 'relevant UK earnings' and £40,000.

When you contribute to a SIPP, your provider will top up the money you pay in automatically via basic-rate tax relief.

This means that, provided your relevant UK earnings are £40,000 or more for the tax year, you can

contribute up to £32,000 into a SIPP and this will be topped up by a maximum of £8,000 in basic-rate tax relief.

Relevant UK earnings only includes certain sources of taxable income like salary, bonuses and commissions. They do not include earnings from buy-to-let property or pension income.

Whether you're eligible for additional-rate or higher-rate tax relief, however, is based on your highest marginal rate of income tax, which will be based on all sources of taxable income.

It doesn't matter whether or not your relevant UK earnings on their own were within the higher-rate tax band. It's the overall picture that's important.

## CARRY FORWARD

You mention using carry forward previously to 'claim tax relief at the higher rate', so it's probably worth clarifying how this works.

Carry forward allows you to utilise unused annual allowances from the last three tax years in



the current tax year.

This means, in theory, you could boost the amount you save into a pension in the 2020/21 tax year to £160,000 (3 x £40,000 allowances from the last three tax years plus 1 x £40,000 allowance in the current tax year).

The amount you can contribute remains restricted to 100% of your relevant UK earnings, however, and you would reclaim any higher or additional-rate tax relief owed in the same way as before.

## DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to [editorial@sharesmagazine.co.uk](mailto: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.



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## HOW I INVEST: Profiting from the stock market dip

Having read in February about coronavirus threat, John from Reading took advantage of the market fall and subsequent bounce back



**A**ware in February that the coronavirus pandemic could cause a severe market correction, John from Reading and his wife decided to shift around a quarter of their portfolio into cash.

Having retired eight years ago, John says he and his wife would normally keep around two years' worth of living expenses in cash.

Their overall investment goal is to ensure they can enjoy retirement and pass on cash to their children and grandchildren on an annual basis.

They use the FTSE 100 as a benchmark for their portfolio, and John says they are ahead of that index by about 60% over the last eight years, albeit not adjusted for any dividends received.

### BUYING THE DIPS

When in February it looked like an impending stock market crash was on the way, the couple decided to increase their cash position substantially, either to ride the storm without worrying too much or to be able to buy shares they liked at a lower price in the future.

As it turned out for John, the dips certainly came, so he took advantage of the prices coming down, choosing companies that he had 'hoped to invest in at some stage anyway, but where we had missed the boat'.

Initially the idea was to buy and hold those shares – stocks like **Greggs (GRG)**, **Fevertree Drinks (FEVR:AIM)**, **B&M European Value Retail (BME)** and **Wizz Air (WIZZ)**.

John also bought exchange-

traded fund **iShares Physical Gold (SGLN)**, 'as every commentary said we should hold some gold', though he only held the ETF for a month, realising a gain of around £3,600, which 'seemed worth taking', in his opinion.

The couple say their usual investment strategy is to buy and hold momentum stocks, looking for capital gains and ignoring dividends completely.

### SELLING STRATEGY

When judging when to take a profit, they consider not only the size of the gain, but also the time period over which it occurs, with the view that a 10% gain over one month is better than a 30% gain over a year.

John concedes this means they sometimes get out too early but adds that they usually temper



this by top-slicing, i.e. selling some but retaining a stake at the original cost.

He explains, 'An example, we were lucky to buy **Novacyt (NYCT:AIM)** at 77p on 13 February. Having bought 13,034 shares initially, we then sold 4,396 shares at 455p on 9 April and a further 4,281 shares at 467p on 16 April. This provided a total gain of about £33,000 on an investment of £10,000, while still retaining 4,357 shares. That is a once in a lifetime event, surely!'

## PORTFOLIO SIZE

John and his wife currently hold around 60 shares in their portfolio, with another 40 on their watch list.

Keeping tabs on the shares in their portfolio every day, John says he and his wife soon saw some very quick gains as the market recovered from its March low, and so they quickly banked profits. 'For example, we bought housebuilder **Vistry (VTY)** on 15 April, then sold on 17 April, gaining 11% in two days.'

He then bought Vistry again on 21 April and sold on 23 April, gaining another 14% in two days that time. John stresses such rapid dealing is not his usual way of operating.

## INVESTMENT STRATEGY

When he retired, to help manage his portfolio John devised a method of measuring a share's momentum and volatility, which he calls 'bandwidth'.

Looking at a share price chart, bandwidth is defined as the width of the upper and lower average lines, measured in months, using the last three years as a reference. The narrower a bandwidth, the



We would not normally buy and sell quite so often. It does create quite a lot of time-consuming paperwork, but time is what we have plenty of at present



steeper the incline and the less volatile the share, in John's view.

He sees momentum as a good way of achieving capital gains, believing that the selection of momentum stocks with low volatility improves the chances of achieving growth with the 'minimum of rude shock'.

## WHAT HE AVOIDS

The sectors he avoids are miners, oil, banks and utilities as he argues 'events beyond their management's control can distort their share prices significantly', adding that they wouldn't meet his criteria anyway as they currently lack momentum.

John doesn't invest in any funds, preferring UK-listed

shares. He says: 'I see no real reason to pay charges when, as I hold about 60 shares, some of them will be held by funds too. I have used ETFs in the past but only if I am short of ideas.'

Whilst John says lockdown can be 'tedious' at times for himself and his wife, the extra time made available has been used to some effect.

'We would not normally buy and sell quite so often. It does create quite a lot of time-consuming paperwork, but time is what we have plenty of at present,' he explains.



By Yoosof Farah  
Reporter

## WOULD YOU LIKE TO FEATURE AS A CASE STUDY IN SHARES?

We are looking for individuals or couples who can discuss their experience with investing and some details about their portfolios.

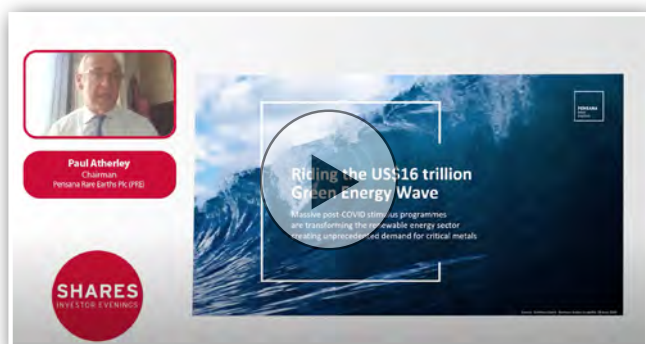
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# Finding out what's moving up and down in the markets

Where to see movements in stocks, commodity prices, currencies and bonds

**I**t's important to keep an eye on how the market is moving if you're investing in stocks and shares. You can get a sense of what's hot and what's not, and how other investors are reacting to various bits of news and world events, as well as general sentiment towards equities.

For a quick overview of what the FTSE 100 index is doing and which specific companies are going up or down, [Shares' website](#) publishes various market reports throughout the day.

As well as these useful news stories, *Shares'* website also lets you analyse stock movements. You can search by various UK stock indices including FTSE 100, FTSE 250, FTSE All Share and FTSE Small Cap as well as filtering just the AIM market.



**"You will be notified when the price hits your desired level"**



The website shows each stock or indices' current market level and change in percentage terms on the previous night's close. You can also compare performance going back further, such as over one week or three months.

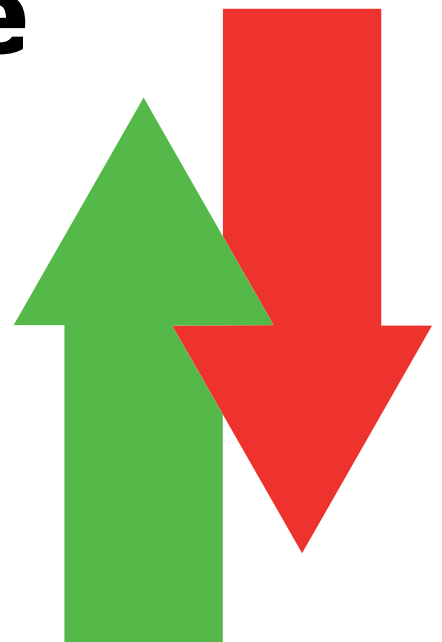
A risers and fallers table shows the top 10 gainers and losers in the aforementioned indices, again in percentage terms.

To monitor the performance of a group of stocks, *Shares'* website has a 'stockwatch' facility where you can build lists of companies you want to monitor.

The system shows prices, the change on the day, the cumulative volume, the high and low prices for the year to date and where the current price is in relation to the highs and lows. You can also write notes on each stock, such as why you're interested in it, upcoming events you want to watch and so on.

If you want to know when the price of a stock hits a certain level, when there is a news story on a company or one of the directors deals in its shares, you can set custom alerts. This allows you to get on with other things in the knowledge that you will be notified either when the price hits your desired level or there is relevant news.

For those with a more general



interest, such as finding out which company's shares are the most heavily traded on a given day, head to the website of the [London Stock Exchange](#) which displays both the biggest risers and fallers and the most active stocks in terms of number of shares traded.

For a good snapshot of what's going on in the markets via a single web page, the [BBC's news website](#) shows movements for the main UK, US, European and Asian indices, exchange rates for the pound, euro, dollar and yen as well as oil, gold and natural gas prices.

News and information firm [Reuters](#) also has prices and news on global stocks, currencies and commodities, as well as information on global bond yields.



By Ian Conway,  
Senior Reporter





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- **AIM**
- **Fund**
- **Investment Trust**
- **ETF**
- **Overseas Share**

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## KEY ANNOUNCEMENTS OVER THE NEXT WEEK

### Full year results

**31 July:** Dillistone. **3 August:** Argentex, Henderson Alternative Strategies, Tekmar. **4 August:** Diageo, Science Group.

### Half year results

**31 July:** FBD, Intertek, NatWest, Rightmove, United Carpets. **3 August:** Dialight, Hiscox. **4 August:** Brave Bison, Calisen, Direct Line, Keller, Meggitt, Spectris. **5 August:** Hill & Smith, Legal & General, Morgan Sindall, PageGroup, RHI Magnesita, William Hill. **6 August:** AIB, ContourGlobal, Evraz, Hammerson, Mondi, Phoenix, Savills, Serco, Spirent Communications.

### Trading statements

**3 August:** Kosmos Energy. **5 August:** UDG Healthcare. **6 August:** Amryt Pharma.

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All chart data sourced by Refinitiv unless otherwise stated

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Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.  
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