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SHARES

WE MAKE INVESTING EASIER

1 YEAR SINCE THE MARKET CRASH

PLUS

VACCINE BOOST FOR MARKETS AS **REOPENING** EYED

CAN **MOONPIG** CONTINUE TO FLY HIGHER?

FUNDS WHICH PAY **DIVIDENDS** EVERY MONTH

Why we should be fearful of zombies

Recovery could be constrained by companies kept afloat thanks to state support

They may not be too busy just yet but insolvency specialists are feeling fairly confident about their near-term prospects which, on the flipside, is bad news for UK businesses.

On 12 February the recently-listed insolvency and business advisory firm **FRP (FRP:AIM)** signalled its confidence in the future with plans to pay quarterly dividends while also pointing to a 'positive' outlook.

Fellow practitioner **Begbies Traynor's (BEG:AIM)** latest quarterly Red Flag Alert Report (covering the three months to 31 December 2020) identified 630,000 businesses in significant distress – a 13% increase quarter-on-quarter and figure described as the 'tip of a very large iceberg', with executive chairman Ric Trayor commenting that there are 'many zombie businesses which have been hanging on by a thread for years before this pandemic'.

In short, based on what they are seeing, both Begbies and FRP reckon the Covid impact has merely been delayed rather than averted by the various support packages brought through by chancellor Rishi Sunak.

Analyst Rachel May at FRP's house broker Shore Capital said: 'Whilst it is too early to call whether it is the start of an emerging trend, the latest insolvency statistics for December 2020 reported a 9% increase in company insolvency volumes, marking the first monthly year-on-year increase since the start of the pandemic.'

TURNING JAPANESE

A lot of the affected businesses will be privately-owned small and medium-sized enterprises but there will be listed small caps (and large caps in fairness) which will be under considerable pressure, particularly as state funding is scaled back.

Many otherwise viable businesses have been hit hard by the pandemic and it made sense for the

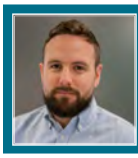
Government to step in and support them.

However, what the UK will be desperate to avoid is a situation where there are lots of zombie companies, i.e. heavily indebted firms being kept afloat by a mixture of bank and state lending which could hamper the economic recovery from the pandemic.

Or in other words Sunak will not want a repeat of the situation in Japan where companies caught out by the bubble bursting in the late 1980s were kept on life support and contributed to a 'lost decade' for the Japanese economy in the 1990s.

From an investor perspective it is extremely important to pay close attention to the balance sheets of your holdings of individual stocks, particularly if they operate in a sector which is being heavily impacted by Covid-19.

And in this context the latest and immediately preceding entries in our *First Time Investor* series should prove very useful as they help with getting to grips with the fundamentals of a balance sheet.



By **Tom Sieber** Deputy Editor

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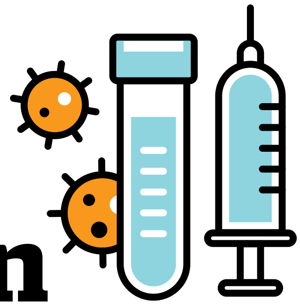
News Provider of the Year (Highly Commended) CFA UK Journalism Awards 2020

Vaccine optimism builds as firms seek clear Covid-19 exit plan



Cumulative number of global vaccinations has overtaken number of infections

The UK government hitting its target to vaccinate all vulnerable groups by 15 February and the virus replication rate falling below one is helping the market get very excited about the prospect of the economy being unlocked as 'reopening trades' in the travel and leisure sector regain their popularity with investors.

The onus is now on Boris Johnson to articulate a clear Covid-19 exit strategy with an update scheduled for 22 February.

The government's prior reluctance to provide a clear plan has prompted some firms in the hospitality sector to tap shareholders for a second time in order to secure extra funding and provide headroom in the case of further slippage.

Pub operator **JD Wetherspoon (JDW)** raised £93.7 million on 20 January at a 5% discount to its prior closing price, and on 25 February **Mitchell's & Butlers (MAB)** which owns All Bar One and Nichols announced a heavily discounted (36%) £350 million rights issue.

According to Numis analysts Wagamama owner **Restaurant Group (RTN)** and catering firm **SSP (SSPG)** are also likely to raise new money given the relatively tight headroom of their banking facilities.

The extra funds come on top of the sector raising £400 million of cash from shareholders in 2020 as well as accessing £500 million of funding through the governments various coronavirus loan schemes.

Numis reckons that most hospitality firms are working on the assumption that they won't be able to reopen until the second quarter which implies, they will miss out on the boost that Easter trading would provide.

This means an earlier opening than currently expected would have a positive impact on hospitality shares, with those that moved early to secure extra funding arguably in a better position to take advantage.

Data from Australia which reopened in the Autumn suggests people are twice as likely to want to eat out compared with before the pandemic, pointing to strong pent-up demand.

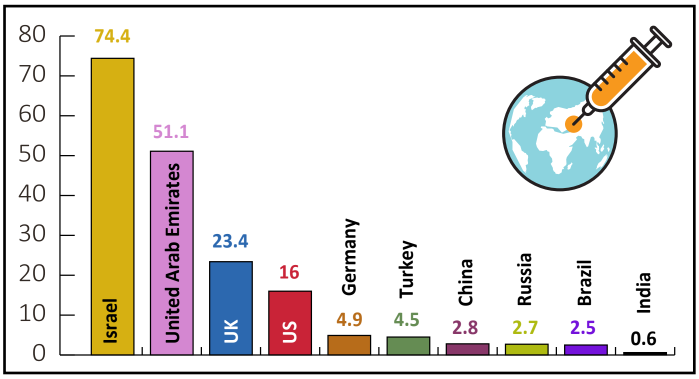
The opportunity to pick up market share from weaker operators while benefitting from strong demand means some companies could get back to profitability faster than anticipated.

In addition, there has been significant capacity reduction over the last 12 months which has positive implications for margins. However, the potential for a strong growth hasn't been lost on trade and private equity buyers.

Pubs group **Marston's (MARS)** turned down (4 February) an offer from US private equity firm Platinum Equity. Meanwhile, former chief Greene King chief Rooney Anand has raised £200 million from investors including US investor Oaktree Capital to invest in the sector.

In the event that overseas travel remains off the agenda due to the risk of importing new strains of the virus, pubs and restaurants could get a much needed shot in the arm. [MG]

Vaccine doses per 100 people in countries with the highest total vaccinations



Source: Our World Data 09:30 GMT 15 Feb 2021

Oil surge helps revive Shell after strategy concerns

Crude prices rally amid hopes for demand recovery and supply disruption

New threats to supply and recovery hopes pegged on vaccine roll-outs and US stimulus are helping oil prices extend their stunning start to 2021.

As we write this is contributing to big gains for the FTSE 100 thanks to the heavyweight status of **BP (BP.)** and **Royal Dutch Shell (RDSB)** on the index.

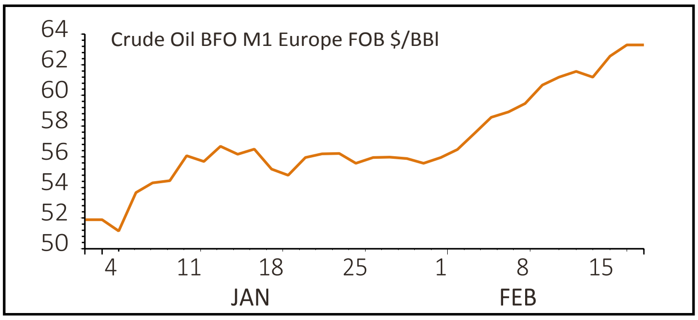
While the demand recovery story is a medium-term one, the problems on the supply side, other than the planned quotas imposed by producers' cartel OPEC and Russia, appear to be more short term in nature.

The freezing temperatures in Texas which have disrupted oil production are starting to ease and tensions in the Middle East seem to have simmered down for now.

Though there are apparent signs of speculators moving into the oil market, following in the wake of the recent GameStop phenomenon, which could provide another leg to the oil price rally.

Other commodities are surging too with copper hitting its highest levels since 2012

This rally has helped Shell to recover its losses after investors gave the thumbs down to its 11 February strategy update with Berenberg noting that for all the talk on the energy transition the renewables arm 'remains the division with the lowest return target for the company'. [TS]



Coupang targeting $50 billion IPO

BlackRock, Bill Ackman and RIT Capital Partners are among the Korean e-commerce disruptor's backers

SOFTBANK-BACKED COUPANG has filed to go public in the US, with reports suggesting the South Korean e-commerce giant is aiming for a valuation of around $50 billion as it aims to tap into voracious investor appetite for high-growth tech stocks.

This would make Coupang the biggest IPO in New York by a company based outside of the US since Jack Ma's Alibaba came to market in 2014.

Founded in 2010 by Bom Kim, Coupang is feared and admired by competitors in equal measure and is regarded as a rival to Amazon in South Korea, where its 'Rocket Delivery' service, which promises delivery within 24 hours, has shaken up the market.

Also backed by Sequoia Capital, asset management behemoth BlackRock and billionaire investor Bill Ackman, Coupang's sales for 2020 nearly doubled to nigh-on $12 billion with losses narrowing to $475 million.

Exposure to the Coupang story is possible through investment trust **RIT Capital Partners (RCP)**, which invested in the company in April 2018. Coupang represented 2.4% of RIT's net assets as of the end of June 2020 and a successful IPO could see the value of its stake increase.

RIT has an objective of long-term capital growth while preserving shareholders' money through market cycles and invests in a diversified, international portfolio across a range of asset classes, both quoted and unquoted. [JC]

Global stocks see largest ever week of buying

Technology still 'hot' but the market may be at risk of over-heating

The opening week of February saw the largest ever weekly inflow of cash into global shares, according to Bank of America's global research team, as well as the largest ever inflow into technology stocks.

Of the total inflow of $58.1 billion into equities, some $25.1 billion or close to half flowed into US large-cap stocks, the second-highest figure on record, while $5.6 billion flowed into US small-cap stocks, the third highest figure on record.

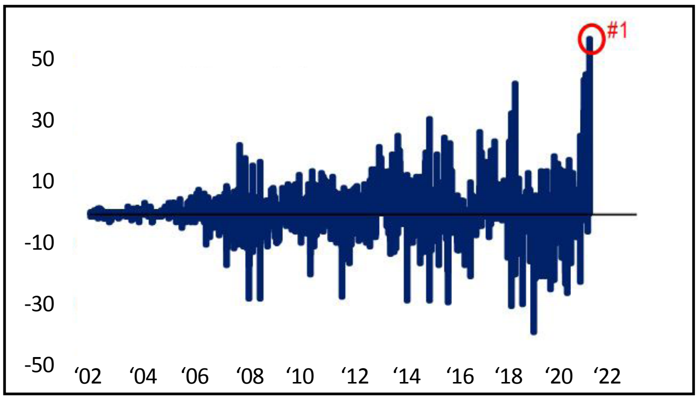
Technology stocks posted their best ever week of inflows at $5.4 billion, while flows into bonds reached $13.1bn, pushing the yield on US 'junk' or sub-investment grade loans to below 4% for the first time in history, despite a 33% increase in issuance compared with 2020.

Part of these inflows were financed by investors taking $10.6 billion out of their cash holdings, with Bank of America noting it saw the biggest drawdown of cash by its own private clients since September 2019.

Investors also withdrew $800 million from gold funds, marking the first month of net outflows in two months.

Private client asset allocation at the bank marked a new high for equities at 63.1%, while bonds made up 19.1% and cash was reduced to 11.7%.

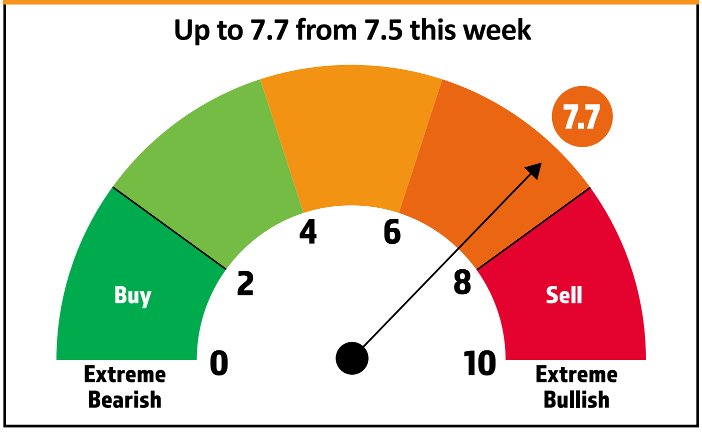
Weekly global equity flows ($bn)



Source: BofA Global Investment Strategy, EPFR Global

BofA Bull & Bear indicator

Up to 7.7 from 7.5 this week



Source: BofA

Analysts warned that as more people are vaccinated and the US reopens, the 'velocity' of money through the economy will lead to a spike in inflation as consumers go on a spending spree.

At the same time, companies are likely to use the reopening to lift prices, as seen in the latest small business survey which showed plans to raise prices in the next three months were at the highest level in two years.

In that scenario, analysts believe, real assets such as commodities, real estate and 'collectibles' including art, fine wine and luxury goods are likely to outperform financial assets like stocks and bonds, which have a poor track record during periods of sharply rising inflation and interest rates.

At the same time, the bank flagged that its Bull & Bear equity market indicator had moved another notch towards 'Sell' territory, from 7.5 to 7.7, with a reminder that the last time the indicator gave a 'contrarian' Sell signal was 30 January 2018.

The median three-month return from a 'Sell' signal, of which there have been 12 since 2000, is minus 9% for global stocks and minus 45 basis points or 0.45% for the US 10-year Treasury yield, as investors dump stocks for the safety of US government bonds (bond yields fall as prices rise). [IC]

Cordiant Digital first of new breed of investment trust to IPO

The UK's first digital infrastructure investment trust has floated and another hopes to follow suit

Investor appetite for all things digital and technology related has started to become apparent as a new breed of investment trust has launched on the London market.

The UK's first digital infrastructure investment trust, **Cordiant Digital Infrastructure (CORD)**, floated this week after raising £370 million, smashing its initial target of £300 million.

Hoping to follow in its footsteps is another trust of the same ilk, Digital 9 Infrastructure, which is seeking to raise £400 million.

Cordiant Digital, which targets a 9% total return a year on net assets, will invest across the UK, Europe and North America in what it calls the core infrastructure of the digital economy, or 'the plumbing of the internet', comprised mostly of data centres, mobile towers and fiberoptic networks.

It plans to capitalise on the 'surging growth in data consumption and traffic', and thinks consumption trends and traffic patterns, as well as the adoption of 5G technology, will provide 'an economic tailwind' that could last for over a decade.

Digital 9 Infrastructure will invest in similar assets to Cordiant but also subsea cables. It's been reported 98% of the world's data is carried by subsea cables, and clients include almost all of the world's big technology companies.

The fact Cordiant actually managed to float, let alone beat its target, demonstrates the demand from investors for differentiated ways to play the ongoing digitisation of the economy, and brokers Numis call it a 'strong result' for the trust, given the fact investors are 'typically highly reluctant' to participate in IPOs.

Numis bemoans that 'a frustrating number' of investors 'give feedback that they like the idea' of a trust, but will back it in the second fundraising round and adds: 'We believe this reflects the higher due diligence requirements on an IPO and the potential wasted time and reputational risk if it fails to get away.

'As a result, many IPOs struggle to get away and we have also seen a number of IPOs coming back to the market and raising capital relatively shortly after launch.'

In the case of Cordiant, it's also worth highlighting it has issued subscription shares as part of its IPO, which could've boosted demand as these have been used in the past to give a 'kicker' to IPO investors.

Cordiant has issued subscription shares on a one-for-eight basis, which could lead to issuance of up to 12.5% of share capital, exercisable if the shares trade on a premium in the first six months or if the share price total return exceeds the target return over the first five years.

Numis warns the cost of holding subscription shares for retail investors on platforms 'can be significant compared to their value'. [YF]

Profit from the reopening with FTSE 250 chemicals firm Elementis

The stock is cheap compared to peers but analysts think earnings could recover rapidly and 'positively surprise' the market

FTSE 250 chemicals firm **Elementis (ELM)** ticks all the boxes for an investor looking for an overlooked and undervalued stock set to benefit from the reopening of society and the economy.

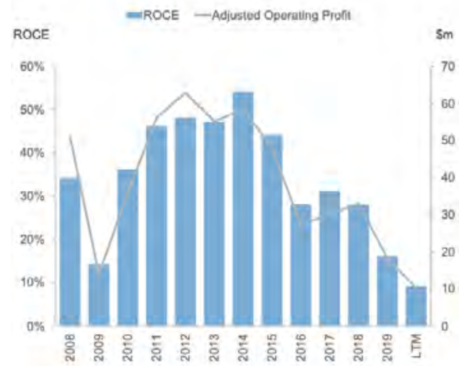
Elementis has the right mix of sales divisions to benefit from both economic activity picking up again and society reopening, and at a bargain price-to-book value of just 1.2 times, compared to a much higher 9.45 times for peers like **Croda International (CRDA)**, we believe the firm has been unfairly overlooked by the market.

ELEMENTIS
BUY
(ELM) 125.9p
Market cap: £731 million

BUSINESS OVERVIEW

Elementis' four main divisions are Personal Care (chemicals for deodorants, soap, skin care products, etc), Coatings (used for the industrial and construction sectors), Talc (used in paper, paint, plastics, polyester, ceramics and even food) and Chromium, with 80% of its earnings now coming from the first three aforementioned divisions according to its 2019 annual report.

Chromium returns at trough levels



Source: Elementis

Berenberg analyst Sebastien Bray says Elementis has been marked down by the market in the past over its Chromium division, with chromium prices generally having been weak for years.

Bray says analysts 'have spent so much of the past five years cutting numbers for this segment that we suspect many are instinctively reluctant to model a return of pricing growth and operating leverage, even if all macro indicators suggest this could emerge from H2 2021'.

CHEAP VS PEERS

He thinks close to 50% of Elementis' earnings in 2020 will likely come from coatings – an industry that has been quick to recover from the coronavirus crisis, and argues that Elementis trades cheaply versus peers because of this. He also points out the balance of supply and demand in talc may also tighten long term, which could add more than 10% to the firm's earnings before interest and taxes.

This viewed is echoed by analysts at Morgan Stanley, who think the strength and speed of Elementis' earnings recovery in 2021 could 'positively surprise, given the company's gearing to cyclical end markets (c.55% of sales), as well as the reopening trade (15-20% of sales)'.

Meanwhile both Bray and analysts at Morgan Stanley sees the firm's deleveraging story as potentially adding to the share price.

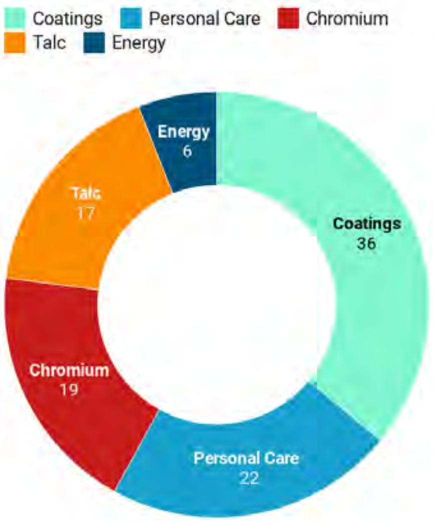
Morgan Stanley analysts believe management's continuing delivery on its objective to pay down debt could add '5% to equity value per year', while Bray says the dividend cut and covenant extension in 2020 have 'removed immediate danger and that the business's high levels of cash generation should drive leverage down thereafter'.

The firm's net debt in recent years has ballooned to almost $500 million, compared to a net cash position of $77.5 million in 2016, something which has also weighed on its share price.

GETTING DEBT UNDER CONTROL

But the company said in September it was on track to deliver a 'significant' reduction in net debt in the second half of 2020. That and the fact net debt remained at the same level in the first half of 2020 as the same period in 2019 has led analysts at Jefferies to estimate net debt could be cut by $45 million in the second half of 2020.

Elementis Revenue Breakdown



Source: Elementis 2019 Annual Report • Created with Datawrapper

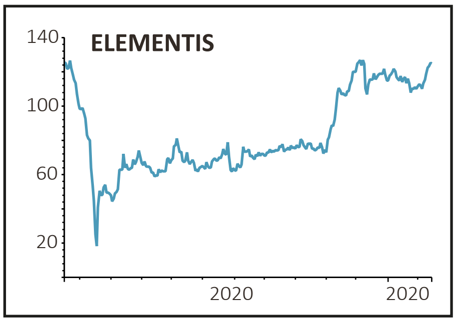
Relative weakness in the company's share price has also seen it become a takeover target, with US rival Mineral Technologies seeing three offers, the last worth 130p per share, rejected with Elementis arguing the offers 'significantly undervalued' the business and ignored the firm's 'clear strategy to create value for its shareholders'.

Detailing the reasons why it thinks it is worth 200p per share when it rejected the last takeover offer in December, Elementis points to the fact it is the owner of 'differentiated resources with high scarcity value', including the world's only commercially viable high-quality rheology grade hectorite mine.

It also highlights the fact over 80% of earnings are now from Personal Care, Coatings and Talc, which benefit from 'fundamentally attractive' margins and GDP growth, with the divisions achieving an average adjusted operating profit margin of around 15% over the last three years, with its medium term group adjusted operating profit margin objective being 17%.

Elementis also argues that specialty chemicals companies with margins in the range of 14% to 17% currently trade at 17 times to 19 times 2021 EV/EBITA (enterprise value to earnings before interest, tax and amortisation), and that applying this range to average operating profit for the Personal Care, Coatings and Talc businesses over the last three years implies a valuation of 163p to 190p per Elementis share.

The company adds that this excludes its Chromium business, which could be valued at an additional 35p per share, implying a group valuation of 200p or more per share as the firm 'delivers on its medium term objectives'.



Lloyd's insurance investor Helios is set for big gains

A hardening of rates means potential for significant profit growth

Helios Underwriting (HUW:AIM) is unique as an acquirer and consolidator of Lloyd's insurance market underwriters. So far the firm has bought 43 limited liability vehicles or LLVs, including some of the best Lloyd's Names as they were formerly known, as their owners age or decide to exit the business.

Commercial insurance rates have soared in the last year as a result of coronavirus, meaning that those who are prepared to put up capital can earn significantly higher returns in the next few years.

For chief executive Nigel Hanbury, the current market represents a golden opportunity for Helios. 'I have seen three "hard markets" in my 40 years in the business', he says. 'The last was almost 20 years ago, after 9/11. This is the third.'

HELIOS UNDERWRITING
BUY
(HUW:AIM) 187p

Market cap: £63 million

Having raised £20 million of equity capital last November, and having protected itself from Covid claims, the firm is set to underwrite £110 million of risk this year, an increase of 60% on the size of the portfolio at the start of last year.

More significantly, it will only reinsure slightly more risk than it did last year which means the amount of retained business will jump from just over £20 million to almost £60 million.

Hanbury's enthusiasm is echoed by others in the market. Andrew Horton, chief executive of **Beazley (BEZ)**, described himself as 'very positive about the year ahead' thanks to the 'favourable rate environment', while **Lancashire (LRE)** boss Alex Maloney cited 'positive pricing trends across most of our business lines'.

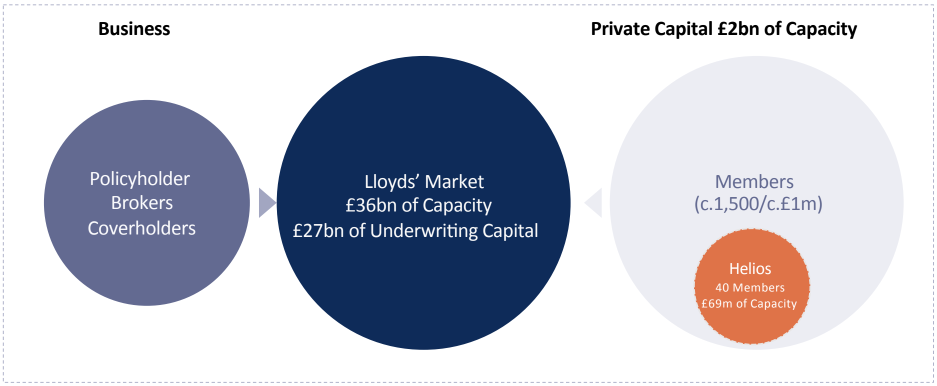
The last few years have been tough for the insurers as a wave of non-traditional investors piled the market, throwing money at the business in a desperate attempt to generate returns and depressing rates in the process.

Having been hit with losses, those investors are now withdrawing from the market. Meanwhile, by keeping its head down and steadily adding capacity, Helios was able to weather the storm and now finds itself with a strong following wind and the ability to deploy significantly more capital to capture higher rates.

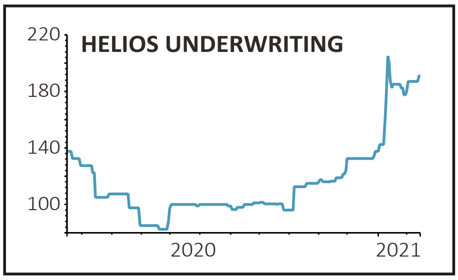
As well as generating capital growth, Helios is aiming to pay out a rising proportion of earnings in dividends, with analysts estimating a 50% payout ratio within a couple of years, which would make it an attractive stock for income investors too.

Consolidation of Private Capital at Lloyds

Helios' model exploits a unique window as private capital evolves



Source: Lloyd's & Members' Agents Website



RWS

(RWS:AIM) 619p

Gain to date: 15.9%

Original entry point:

Buy at 534p, 23 December 2020

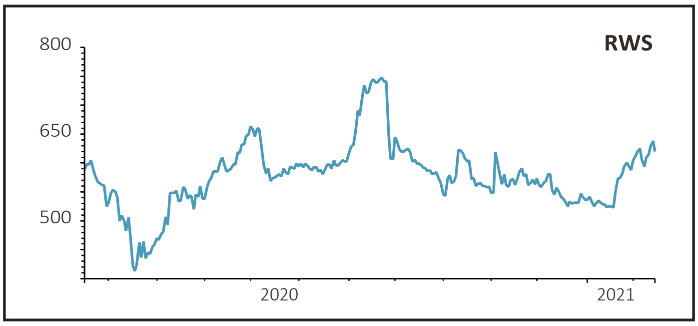
LANGUAGE TRANSLATION technology firm **RWS (RWS:AIM)** signaled to the market this month that trading in its core business in the first quarter to the end of December had been 'excellent', with pre-tax profit up by double digits.

At the same time, in its first two months as part of the group, new acquisition SDL delivered results in line with the previous year and the integration process is well on track, with new management already in place and 'significant synergies already starting to be realised'.

The firm held off from raising its full year forecasts and instead flagged the strength of sterling against the US dollar as providing 'an unwelcome headwind', but the strong start suggests there could be broker upgrades in the pipeline.

Moreover, given RWS has no net debt, chairman Andrew Brode hinted at more deals to come, calling the firm 'well-positioned to take advantage of further acquisition opportunities in a rapidly consolidating market segment'.

Numis sees the stock as 'good value' given the encouraging trading update and especially the potential for higher than expected synergies to come from the SDL acquisition.



SHARES SAYS: ↗

Keep buying. [IC]

BHP

(BHP) £22.71

Gain to date: 14.5%

Original entry point:

Buy at £19.83, 23 December 2020

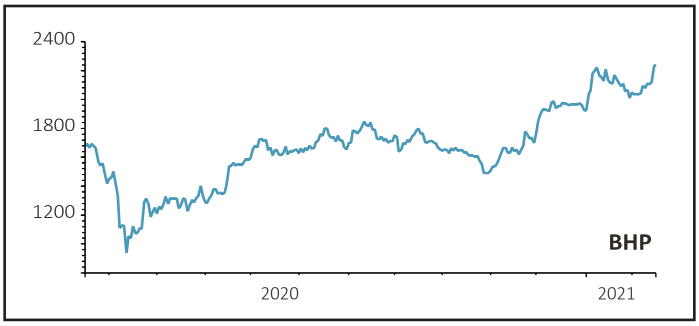
AS EXPECTED mining giant **BHP (BHP)** has felt the benefit of soaring iron ore prices and has decided to reward shareholders with a record $5.1 billion, or $1.01 per share, first half dividend – a 55% year-on-year hike.

BHP makes half its money from iron ore currently, and the world's largest miner has been a big beneficiary of an upswing in prices, which have risen 85% in the past year and peaked at $185 per tonne in December, mainly due to demand from China, the world's biggest iron ore consumer.

To put the impact into context, miners, including rivals like **Anglo American (AAL)** and **Rio Tinto (RIO)**, can dig iron ore out of the ground profitably at prices around $15 per tonne.

In its half-year results to 31 December, BHP reported a 16% jump in underlying attributable profit – the measure used by analysts and investors – to just over $6 billion on revenue of $25.7 billion. Net debt, also closely watched, dropped 7% to $11.8 billion.

If iron ore and copper prices – another key commodity for BHP – remain at current levels in the first half of the year analysts think it can cut net debt significantly, which could pave the way for another big shareholder payout.



SHARES SAYS: ↗

There's increasing talk we're in for a commodities super-cycle this decade. BHP would be a big beneficiary. [YF]

Moonpig shares: not cheap but a very interesting business

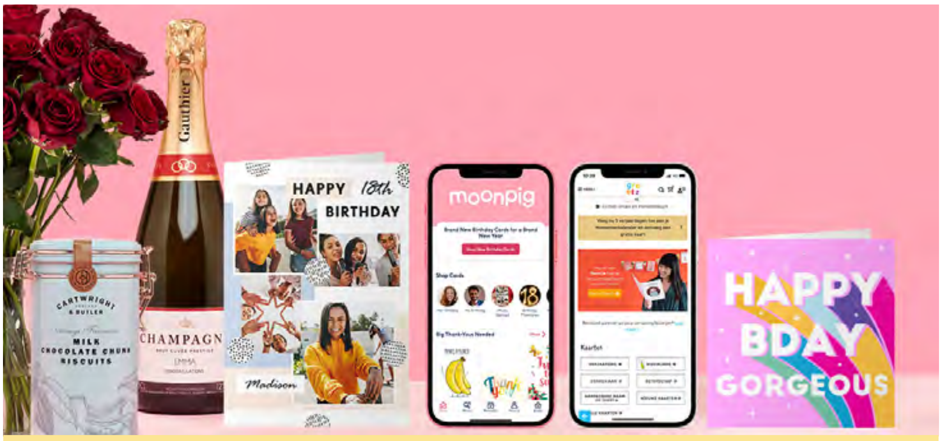
We think they are worth buying for the clear growth opportunity and clever techniques to drive sales

Shares in £1.4 billion company **Moonpig (MOON)** have flown 21% higher to 423.8p since the online greeting cards retailer joined the stock market on 2 February at 350p. While its valuation is certainly not cheap, we're inclined to believe the share price has further to rise.

Analysts think the company has been overly conservative with earnings guidance in order not to disappoint in its first year as a listed business.

Ongoing lockdown conditions

mean people are far more likely to order a card online than bother going to one of the few shops open.



FORECASTS - £m

Years to April	Sales (£m)	Adj PBT (£m)	EPS (p)	PE
2020	173.1	31.8	9	47.1
2021	300.1	55.5	13.7	30.9
2022	284.5	38.1	9	47.1
2023	316.4	53.6	12.6	33.6

Source: Peel Hunt, Moonpig, PE based on 423.8p share price

This habit could stick once lockdown restrictions ease, particularly when people experience the ability to put someone's name inside a card design, which is nice personalised touch, and not have the added hassle of buying stamps. Being able to do everything from your phone or computer is so much more convenient.

While online greeting cards retail is a competitive space, Moonpig is one of the best-known brands and widespread media coverage of its successful IPO (initial public offering) will work in its favour in terms of further raising brand awareness.

CLEVER MOVE

We note that Moonpig was only taking orders via its app rather than the website in the run up to Valentine's Day, citing high demand. This may or may not be a savvy ploy to get people to download the app so that its brand is front of mind the next time they need to send a card or a gift.

Once the app is on a customer's phone, push notifications act as a powerful way to increase order frequency and average order value through nudges and personalised recommendations. All very clever.

Moonpig's management team, led by chief executive Nickyl Raithatha and finance director Andy MacKinnon and with former **WH Smith (SMWH)** chief executive Kate Swann in the chair, has sold Moonpig to investors as a technology play rather than as a plain vanilla retailer.

The company uses customer data and predictive technology to remind people of key events and suggest add-on gifts.

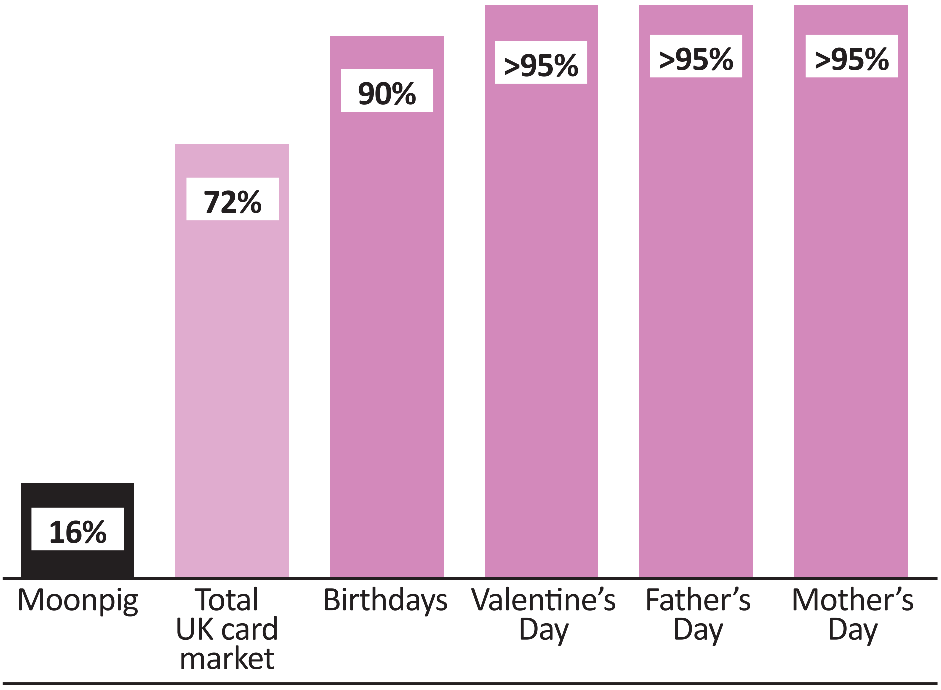
Getting people to buy more than just a card is key to the growth story because gifting is 10 times the size of the cards market. For example, for Valentine's Day, Moongpig's website was plastered with bundles such as a card with flowers or a big balloon. Visitors were also being incentivised to set up reminders for future card-giving dates with money-off deals.

NOT JUST ABOUT THE UK

The company trades as Moonpig in the UK and under the Greetz brand in the Netherlands, having made Holland's market leader its first acquisition in 2019.

The web-based business boasts a powerful market position with a 60% share of

Attachment rate of gifts to cards is high in the wider market



Source: Moonpig data

the UK online greetings cards market. That is four times bigger than the number two player, Funky Pigeon which is owned by WH Smith.

Broker Peel Hunt describes Moonpig as 'a very impressive, ground-breaking business', with a strong position in an online market that is growing.

> *'A very impressive, ground-breaking business, with a strong position in an online market that is growing.'*
> ***Peel Hunt***

It says approximately 70% of cards are ultimately sent with a present (which is likely to have been bought from another retailer), yet only 16% of Moonpig's transactions involve an add-on product and only a small proportion of customers come to Moonpig solely for a gift, so there is significant scope to grow this part of the business.

'Moonpig may have a large share of the online card market, but its share of the cards sent in the UK and Holland can grow. At last count, it had 12 million active customers out of a potential pool of 53 million. Those customers use Moonpig for three of their 23 annual cards: that can rise too,' it adds, arguing that the group's customer relationship management and data crunching abilities are 'game changers'.

HALLMARKS OF QUALITY

In the documents accompanying its stock market debut, Moonpig insisted it is a highly cash generative business due to its high margins, negative working capital profile and relatively low capital expenditure requirements.

For the six months to October 2020, revenue grew 135% to £155.9 million, with £120.8 million contributed by the core Moonpig business and the balance by Greetz, where margins have expanded under Moonpig's ownership.

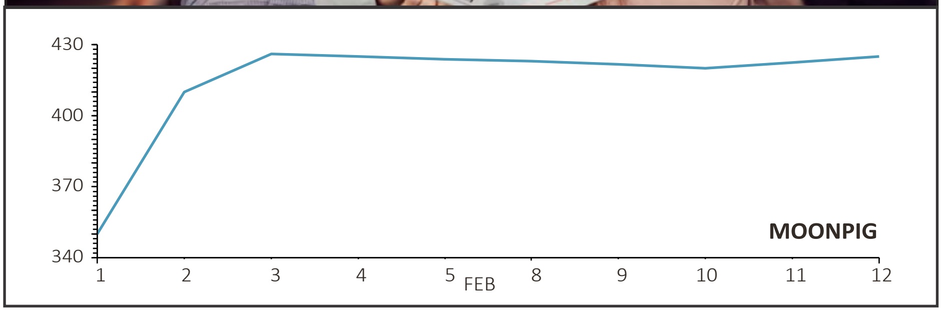
Peel Hunt's retail experts believe the Moonpig model can be exported internationally too. The shift towards gifting solutions should help the company to grow on the continent, where Europeans tend to send less cards than the Brits. Moonpig already has a small operation in the US too and Peel Hunt says it would not be surprised if this became more material in time, either organically or via acquisitions.

For the financial year to April 2021, with a tailwind from the pandemic, the broker forecasts 75% jump in adjusted pre-tax profit to £55.5 million on £300.1 million of sales. These estimates could prove conservative if, as is likely with brick and mortar stores shut, Moonpig enjoys bumper business around the major card-sending events of Valentine's Day and Mother's Day.

Pre-tax profits of £38.1 million are on the cards for 2022 on £284.5 million of revenues as the boost from lockdowns normalises. Peel Hunt forecasts a surge back to £53.6 million on £316.4 million of sales in 2023.

Based on the broker's 2023 earnings estimate of 12.6p, Moonpig's shares trade on 33.6 times earnings. That is similar to what **ASOS (ASC:AIM)** trades on for the next 12 months' expected earnings.

'(Moonpig's) growth rate, the "category killer" nature, the opportunity to move into the gifting market, and the extremely compelling data on customer retention, make this a highly prized asset, and we would be surprised if the valuation did not ultimately reflect that,' concludes Peel Hunt.



SHARES SAYS: Though the high valuation means the company is priced for perfection, Moonpig has a clear growth path as part of a structural shift in its part of the retail sector. Buy at 423.8p.

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

THIS IS AN ADVERTORIAL

Why Japan is well placed to perform in a global recovery

Nicholas Price
Fidelity Japan Trust PLC

AS THE VACCINE rollout begins in earnest and economic data starts tentatively to improve, positioning for recovery is becoming a priority for many investors. As a cyclical market dependent on global growth, Japan should be well-placed to perform in the post-pandemic environment. It also brings opportunities in long-term growth trends such as digital transformation and environmental efficiency.

The Covid-19 pandemic clearly still poses risks, as new variants of the virus and rising infection rates across the globe push governments to reimpose or extend restrictions. However, the gradual roll out of vaccines and continued monetary and fiscal policy stimulus are positive for the global growth outlook and should be supportive of Japanese equities.

Within this broadly supportive environment, a number of themes present themselves. Clean energy and environmental efficiency are areas where Japan has competitive companies that can supply solutions globally. Covid-19 has also accelerated trends in e-commerce and digital transformation. As profits recover, companies will prioritise those areas. Both these trends are well-represented in the portfolio.

However, we are also widening the net and looking for companies with recovery potential in areas such as leisure and travel. As we start to see better performance, there will be an opportunity to pick up companies that are returning to growth.

The ESG opportunity

High standards of corporate responsibility make good business sense and at Fidelity, ESG (environmental, social and governance) analysis is integral to our investment decisions. However, it's not just about buying companies with already high standards. We also look for companies that are implementing real change and improving their governance. This is particularly relevant in the mid/small-cap space where third party coverage is limited and simple disclosure, especially in English, is often limited. When the efforts of these companies are recognised by the market, share prices may rise.

Recently, we engaged with a diversified chemicals company that we hold in the trust. The quality of its business and products was not fully reflected in its share price due to ESG-related issues. We discussed this with the management team, who accepted that this stemmed primarily from poor disclosure on chemical safety and carbon emissions, as well as their reluctance to engage with shareholders.

The company committed to dealing with these issues in line with best practice, setting medium-term financial targets, producing an integrated report and a detailed ESG data book. It implemented a reduction plan for CO_2 emissions and established of a procurement policy that encompasses environmental and human rights issues. This has since been reflected in share price performance.

Future growth

With the Fidelity Japan Trust PLC, we look for companies with a long runway of growth and competitive advantages in a growing addressable market. With this in mind, fertile hunting grounds include energy efficiency solutions, medical technology, Asian consumption and digital transformation providers. There are also a lot of exciting under-researched mid-cap companies in Japan that are creating new markets. Being on the ground in Japan means that we see these ideas first-hand, meeting with pre-IPO companies to identify the most attractive opportunities.

We continue to look for early-stage ideas and nascent disruptors, particularly among fast-growing services and internet-based companies, as well as innovative med-tech names. Japan offers many compelling options to benefit from the building economic recovery.

1 YEAR SINCE THE MARKET CRASH

By **Ian Conway**
Senior reporter

What's changed and are there any bargain stocks left?

Despite all the upheaval of the past year, anyone glancing at the financial markets today might find it hard to believe investors were in the throes of despair 12 months ago.

Following the global markets crash in February 2020, the recovery has been spectacular. The US Nasdaq 100 and S&P 500 indices are at all-time highs, Japan's Nikkei index is at a multi-decade high, China's Shanghai index is at a multi-year high and the MSCI All Countries World Index is at a record high.

In the UK the FTSE 100 and FTSE 250 are still in negative territory since February 2020 although the losses aren't nearly as extreme as they were when the pandemic first took hold.

Markets have been fuelled by support from central bank and government stimulus measures, low interest rates and optimism over the pace of economic recovery thanks to the creation of Covid vaccines.

Risk appetite is alive and well as shown by the surge in crypto currencies, the volume of investment grade bonds now trading with negative

Change in major indices since 2020 market crash

Index	Change
NASDAQ Composite (US)	44.8%
CSI 300 (China)	43.1%
Nikkei 225 (Japan)	29.7%
S&P BSE 100 (India)	28.0%
S&P 500 (US)	16.8%
Hang Seng (Hong Kong)	9.6%
DAX Xetra (Germany)	3.1%
FTSE 250 (UK)	-1.2%
CAC 40 (France)	-4.5%
FTSE 100 (UK)	-8.5%

Source: Sharepad, Google Finance, Shares
Date range: 18 Feb 2020 market close to 15 Feb 2021 market close (12 Feb 2021 for US indices, 11 Feb 2021 for CSI 300)

yields (bond yields fall when prices rise), herd behaviour on social networks regarding stocks, the deluge of cash shells to acquire businesses, the warm reception for new stock market listings and the race by private equity firms to deploy their mountains of cash through acquisitions.

Later in this article we look for cheap stocks that have still to play catch-up.

First, we explore what's changed in terms of how companies do business and how we manage our money.

STRUCTURAL CHANGES

It almost seems as though nothing has changed; in fact, everything has changed. Much of what might be called 'new' isn't new at all – many of the biggest trends to emerge in 2020 had been waiting in the wings for several years, the pandemic just brought them centre stage much earlier than expected.

The greatest change has been the shift to remote working (see *When will we return to the office - if at all?*), which had always existed on the fringe but had never been considered viable on a large scale. The surprise for many business owners was how off-the-shelf technology enabled them to quickly move to remote working without a hitch.

Moreover, remote working has brought benefits to many firms including cost savings, and it has improved the work/life balance for their employees. The flip side is that it is bad news for owners of city centre offices, transport companies and anyone who relies on either – or worse, both.

Companies with large central offices are mostly looking to downsize while those which were planning to expand have realised they can increase their staff numbers while staying in the same office and rotating their teams.

Those with several smaller regional offices may look to do away with them altogether and concentrate on making the working from home experience more fulfilling for their staff.

Bus and rail firms, which will have budgeted for a given level of revenue before the pandemic, now have to go back to the drawing board and rethink their plans, not least for capital spending, given they are likely to see far fewer passengers using their services in the future.

PERSONAL FINANCIAL HABITS HAVE CHANGED

The pandemic has brought behavioural changes, too. Ian Mattioli, co-founder and chief executive of wealth manager **Mattioli Woods (MTW:AIM)**, says his firm has found that many people who, prior to last year, thought nothing of spending their disposable income on two or three holidays a year, are now saving the bulk of their surplus wages to give themselves a buffer in case they lose their jobs.

Recent announcements by holiday companies such as **TUI (TUI)** confirm that holidaymakers are being more selective. The 'return to normal' has failed to happen so far, with TUI reporting a 44% reduction in summer bookings compared with pre-pandemic (2019) levels, well short of its earlier expectation for a 20% drop.

WHEN WILL WE RETURN TO THE OFFICE (IF AT ALL)?

THE LATEST ALPHAWISE survey from investment bank Morgan Stanley makes sobering reading for those hoping for a reopening of the economy by Easter.

According to the bank's monthly telephone survey of 12,500 European office workers, despite the rollout of vaccines since its previous survey, employees' expectations of when they can return to work have slipped from April to June.

As the survey says, 'Clearly, this will not only impact office utilisation in 2021, but also leisure and retail property that depends upon the return to normal commuting patterns.'

Across Europe, 73% of office workers have been working remotely compared with half that proportion pre-Covid. Of these, 80% would like to work from home more in the future, with 51% happy to work out of the office one or two days a week, 29% three to four days a week and 14% every day of the week.

Chris Herd, founder and chief executive of remote infrastructure firm Firstbase, says remote work is 'the biggest workplace revolution in history, and nothing will deliver a higher quality of life increase in the next decade than this'.

Herd believes new companies will be 'remote first', without the need for a corporate headquarters. Aside from the obvious cost savings, this allows them to hire the best people wherever they are in the world, not just within a certain radius. At the same time, companies which want to retain their staff will have to offer remote working as an option or risk losing them.

We are also becoming more discerning when it comes to shopping online for fashion. Gone it seems is the habit of picking six dresses for an event and sending five back, with retailers such as **ASOS (ASC:AIM)** noting a steady decline in the volume of returns throughout the past year.

If we aren't getting dressed up and going out, or planning several trips to foreign climes, what are we spending our money on?

The latest Barclaycard study shows overall UK consumer spending fell 16% between 25 December and 22 January. Spending on essentials was up roughly 4%, with supermarket spending up 17% and online grocery spending up 127%, which is positive news for companies such as **Ocado (OCDO)**.

Spending on non-essentials fell almost 25%, with health and beauty sales down 27% and clothing sales down 25%. With restaurants closed, takeaway and delivery sales jumped 33%, the highest growth on record for the category.

Total online spending was up 73% on the same period a year earlier and now accounts for a remarkable 55% of all retail sales, a genuine paradigm shift for the retail sector which has struggled to keep up with changing demand.

Moreover, most consumers believe they will stick with online shopping once vaccinations are commonplace as they now prefer the experience of ordering via their phone or computer and having their items delivered rather than schlepping to the shops in all weathers.

A SHRINKING HIGH STREET

Sadly, the flip side of this shift to online shopping is the high street as we knew it becoming a thing of the past. Footfall in January 2021 was down a staggering 77%, according to the British Retail

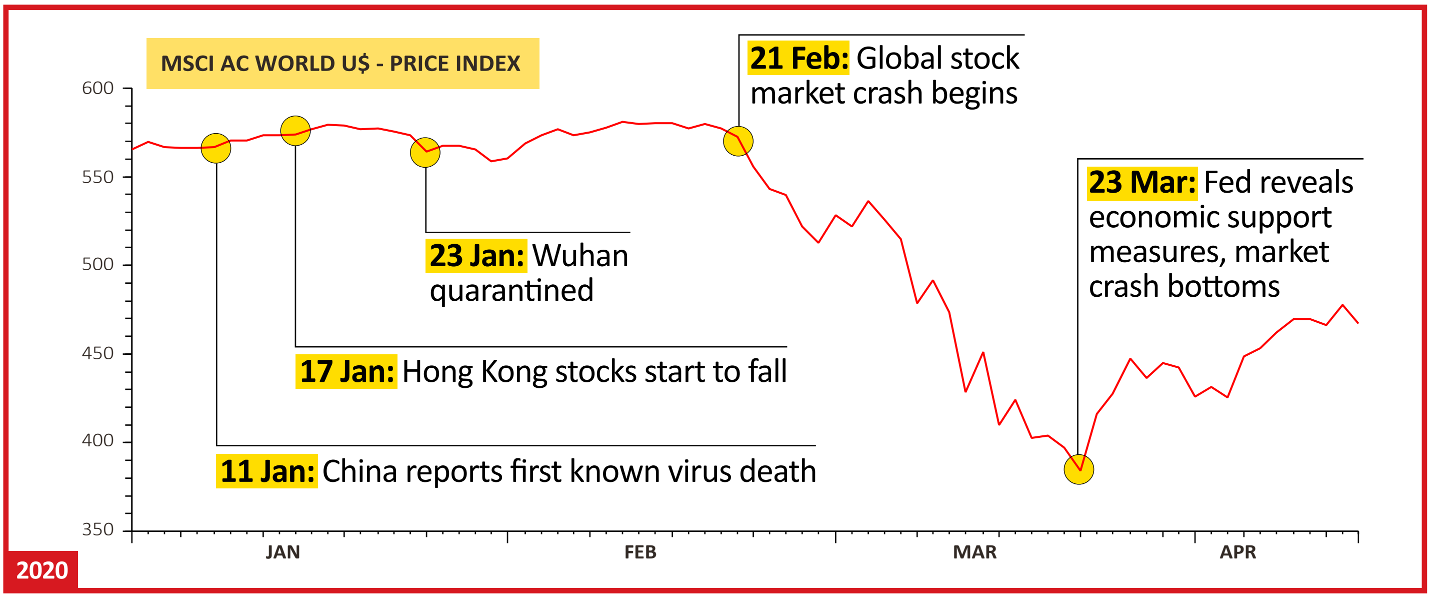
Consortium, and the outlook for February is not particularly encouraging.

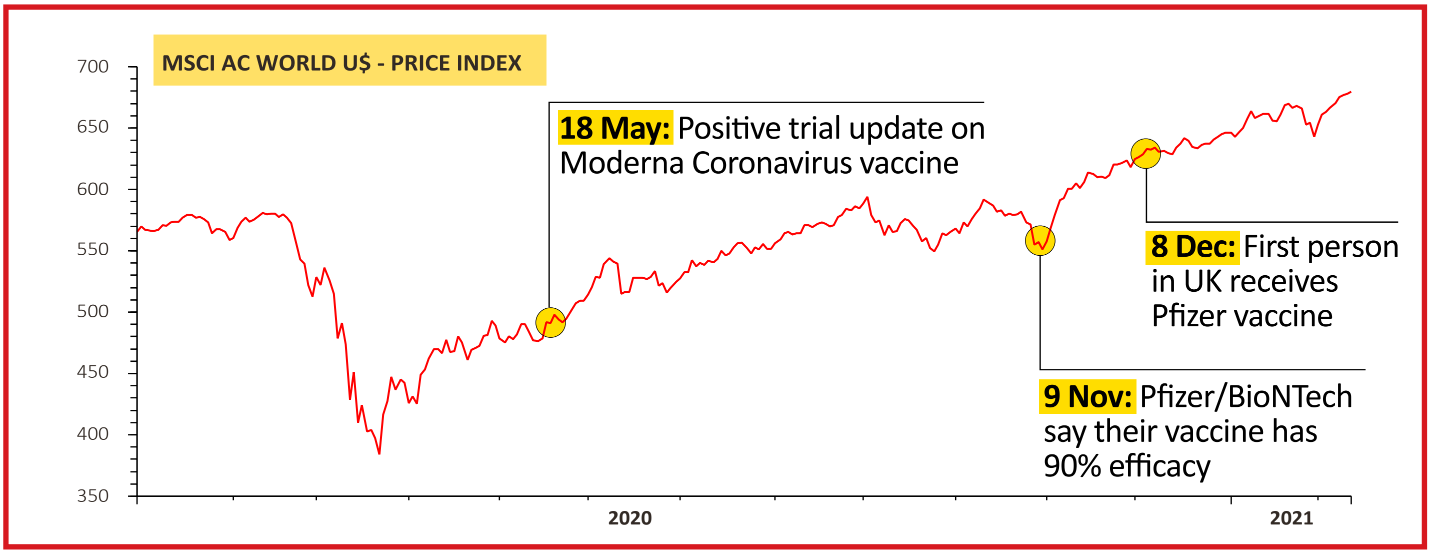
Few chains look to have the right financial strength and proposition to sustain a town centre presence long-term, with the list of likely survivors (among companies whose shares trade on the UK market) more or less measurable in single figures, principally **Greggs (GRG)**, **JD Sports (JD.)**, **JD Wetherspoon (JDW)**, **Marks & Spencer (MKS)**, **Next (NXT)**, Primark-owner **Associated British Foods (ABF)**, Sports Direct-owner **Fraser (FRAS)** and **WH Smith (SMWH)**.

And, where previously an empty shop might have been turned into a café, bar or restaurant, the decimation of the hospitality industry means there are few players with the financial wherewithal to step in and take up the space, especially if footfall is permanently reduced.

According to the Coffer Peach Business Tracker survey, turnover for the hospitality industry was down 54% last year from £133.5 billion to just £61.7 billion. If anything, the fourth quarter trend was worse than the annual average, down 57% from £33 billion to just £14.3 billion.

All of this bodes poorly for commercial property companies for the next few years. Strong retailers will have their pick of the best sites and will likely demand low rents with much of the responsibility for upkeep passed onto the property owners.





STOCK MARKET
WINNERS AND LOSERS

When sifting through what worked and what didn't work over the past year in stock market terms, we have looked at both the broader FTSE 350 sector indices and individual stocks.

Best performing FTSE 350 sector indices since 2020 market crash

Sector Index	Change
Industrial Metals	52.6%
Industrial Transportation	51.6%
Leisure Goods	50.8%
Mining	31.2%
Industrial Engineering	21.8%

Source: Sharepad, Shares
Date range: 18 Feb 2020 market close to 11 Feb 2021 market close

Worst performing FTSE 350 sector indices since 2020 market crash

Sector Index	Change
Oil & Gas Producers	-36.2%
Aerospace & Defence	-34.6%
Oil Equipment, Services & Distribution	-33.9%
Banks	-26.2%
Fixed-Line Telecommunications	-20.9%

Source: Sharepad, Shares
Date range: 18 Feb 2020 market close to 11 Feb 2021 market close

Unusually, industrial metals, mining, industrial transportation and industrial engineering have been the leaders in terms of performance, even though the global economy took an enormous hit during the pandemic and by most estimates it will take three to five years for world output to return to 'trend'.

On the other hand, considering the devastation wrought on the hospitality industry, it's somewhat surprising travel and leisure or pubs, restaurants and hotels weren't among the worst FTSE 350 sector performers.

Instead, the worst sectors have been aerospace and defence, banks, fixed-line telecommunications, oil and gas producers, and oil and gas equipment and services, the last two despite a sharp rally in crude oil prices since the start of 2021.

STOCK-LEVEL ANALYSIS

It won't be a surprise to investors that companies which were either already largely online or shifted their business model to online were among the biggest winners. The top performing FTSE 350 stock since the start of the Covid sell-off is **AO World (AO.)**, up 307%. The online retailer of unglamorous items such as freezers, microwaves and washing machines became a stock market darling as domestic appliances became hot property during lockdown.

Best performing FTSE 350 stocks since 2020 market crash

Company	Share price gain
AO World	307%
Indivior	281%
Premier Foods	157%
CMC Markets	156%
Royal Mail	151%
888	139%
Ocado	126%
Ferrexpo	108%
Antofagasta	82%
Gamesys	80%

Source: Sharepad, Shares
Date range: 18 Feb 2020 market close to 11 Feb 2021 market close

Spread betting firms like **CMC Markets (CMCX)** and **Plus500 (PLUS)** as well as gambling firms like **888 (888)** and **Flutter (FLTR)** posted exceptional gains thanks to a surge in new account openings as those cooped up at home found new ways to entertain themselves by betting.

Savvy investors played the strong performance of

Worst performing FTSE 350 stocks since 2020 market crash	
Company	**Share price loss**
Hammerson	-79%
Capita	-74%
Petrofac	-68%
International Consolidated Airlines	-65%
TUI	-62%
Rank	-60%
Rolls-Royce	-60%
Cineworld	-58%
SSP	-58%
Carnival	-58%

Source: Sharepad, Shares
Date range: 18 Feb 2020 market close to 11 Feb 2021 market close

overseas markets through collective investments, especially those with a US/technology bias, with **Baillie Gifford US Growth Trust (USA)** and **Scottish Mortgage (SMT)** clocking up gains of more than 100%.

Asia-focused trusts also found favour with **Fidelity China Special Situations (FCSS)** almost doubling and **JPMorgan Japanese (JFJ)** rising by two thirds.

Interestingly, less than half the constituents of the FTSE 350 index trade above their February highs today, and a third are still lagging the benchmark with losses of more than 10%.

The list of big losers is littered with travel and leisure, aerospace, financial and industrial stocks, along with real estate investment trusts (REITs). Curiously, many of the housebuilders are still heavily in negative territory with losses of 30% or more despite the continued strength of demand in the housing market – as shown by their recent results – and a clutch of technology stocks are also nursing heavy losses which seems counter-intuitive.

It is worth noting that since 9 November when Covid-19 vaccines started to be confirmed, recovery plays have been in fashion, with travel and leisure stocks such as **Cineworld (CINE)** picking up, and more defensives such as **Unilever (ULVR)** lagging the wider UK indices.

3 STOCKS TO BUY NOW

We have chosen three stocks which we think have been overlooked, with varying degrees of risk attached.

THE ‘SAFE’ ONE

BUY

Beazley (BEZ) 350p

Market cap: £2.2 billion

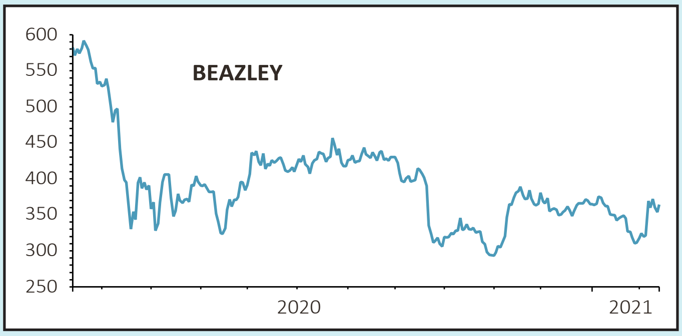
12-month forward PE: 11.7

Shares in Lloyd’s market insurer **Beazley (BEZ)** are trading 38% below their pre-pandemic levels, which seems to us as though the market is driving with the rear-view mirror.

The firm may have posted a $50m loss for last year due to claims for cancelled events and other Covid effects, but this was half the amount analysts were expecting.

What excites us is the 15% increase in renewal rates as the insurance market tightened conditions in response to the pandemic. Chief executive Andrew Horton described himself as ‘very positive about the year ahead’, as having raised capital in May the firm is well placed to capture the strong rate tailwind.

With its strong underwriting discipline and focus on capital returns, Beazley can cover the same risks this year with a much greater profit margin which should lead to earnings upgrades and a sharp rerating of the shares.



THE 'CHEAP' ONE

BUY

Bellway (BWY) £28.84

Market cap: £3.6 billion

12-month forward PE: 9.2

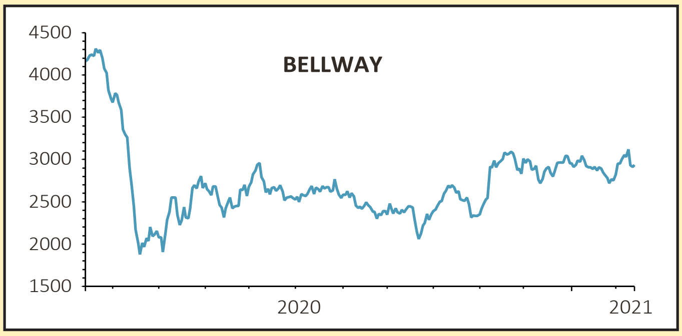
Trailing 12-month price to book value: 1.2

Mid-market housebuilder **Bellway (BWY)** posted a record build volume for the six months to the end of January, and what it called a robust forward sales book with orders for almost 5,900 new homes or 28% more than the same period a year earlier.

It also pointed to full year completions of 9,800 homes, an increase of 30%, and an improvement in its underlying operating profit margin of 'at least 200 basis points' (2%) over last year's 14.5% margin.

Given how much brighter the outlook appears, it seems odd that the shares are still some 30% below their February 2020 level. Moreover, the valuation gap between Bellway and the rest of the sector seems abnormally wide.

We can only assume that investors are worried the end of Help to Buy and/or the stamp duty holiday will lead to disappointment, yet the valuation offers a healthy margin of safety in our view.



THE 'RACY' ONE

BUY

Micro Focus (MCRO) 466p

Market cap: £1.6 billion

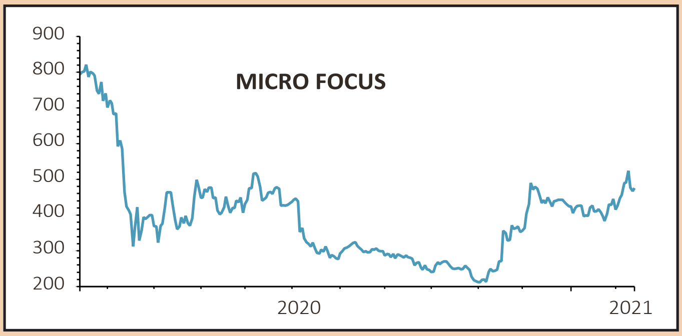
12-month forward PE: 4.5

Infrastructure software supplier **Micro Focus (MCRO)** divides opinion like few other stocks. 'Cheap for a reason' is a typical response, which given its debt level and a surprise $2.8 billion writedown of goodwill in the 2020 results doesn't seem unjustified.

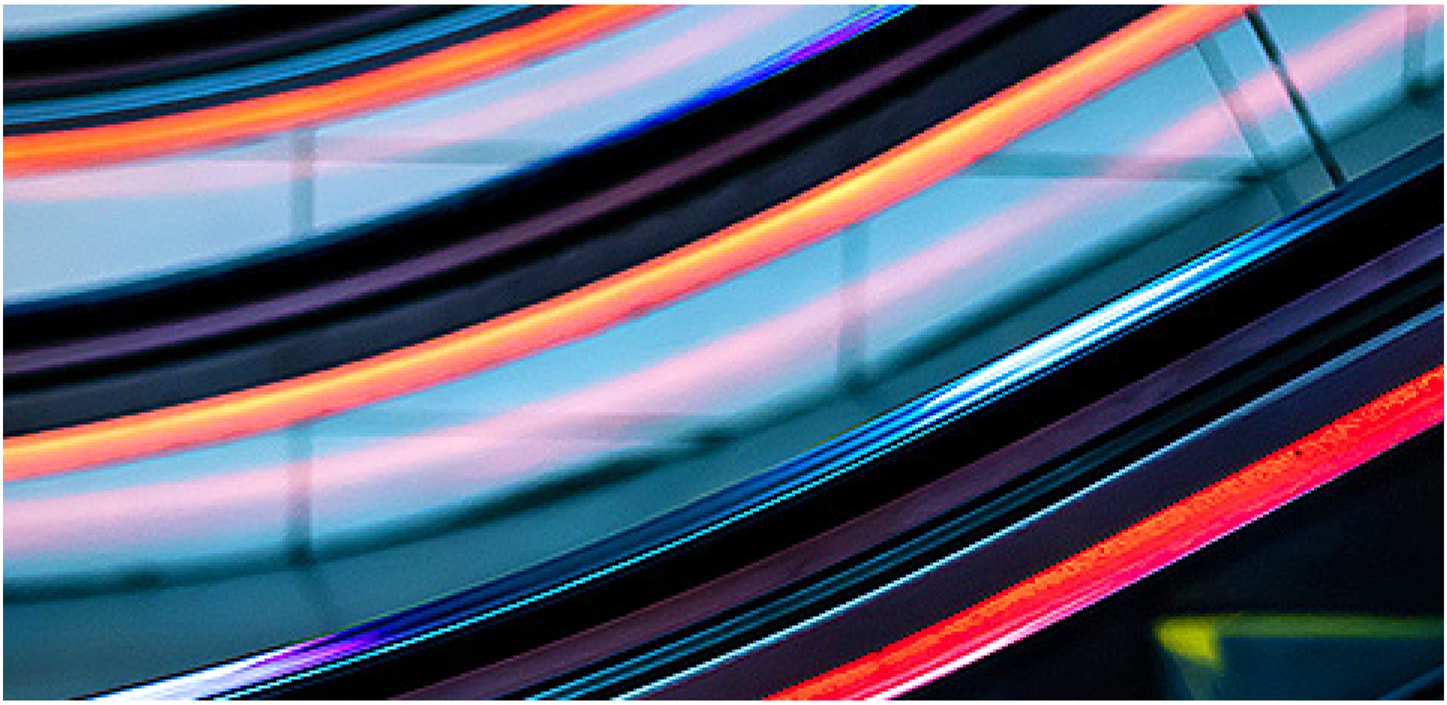
The firm began its three-year turnaround plan in January last year, which was unfortunate timing, but if anything, the pandemic has forced it to grasp the nettle and cut down on unnecessary spending while focusing on key areas of opportunity.

The firm's new guidance is for revenues to stabilise in the 2023 financial year, while its in-house IT infrastructure plan starting this year will generate further operational improvements and efficiencies.

For us, with the shares down 40% since last February, it's a binary bet. Either the firm does what it promised which means the shares rerate, or it keeps disappointing and gets taken over by a private equity firm. This is a high-risk investment and investors should only get involved if they have money they can afford to lose.



A NEW MOOD IN MARKETS: POSITIONING FOR RECOVERY



The narrow focus of markets in 2020 may have left investors positioned for yesterday's crisis rather than tomorrow's recovery, says Thomas Moore, manager of the Aberdeen Standard Equity Income Trust.

- **A rotation in stock markets is being driven by the prospect of economic recovery as vaccinations allow economies to reopen**
- **Stock markets are likely to move ahead of the economic data**
- **There is a window of opportunity to benefit from low valuations as the wall of worry is set to be climbed**

In potentially delivering a route out of the pandemic, vaccines have also brought a notably different mood to markets. For much of 2020, investors were narrow in their focus, concentrating on a handful of consumer staples and technology companies that could deliver strong earnings even as economies shut down. However, in recent months investors have started to broaden their horizons.

Given our focus on identifying under-appreciated UK income stocks with the potential for stock-specific change, the highly-charged macro environment that prevailed in 2020 was a difficult one for the Aberdeen Standard Equity Income Trust. Style analysis shows that there was general antipathy towards income stocks globally, with UK income stocks performing particularly badly on fears of a no-deal Brexit. However, as vaccines pave the way for economic recovery and an eleventh-hour EU-UK trade deal reduces political uncertainty, investors have started to appreciate the robust prospects and inherent value in many unloved and unfashionable UK stocks. We believe investors should take note.

We are still in the foothills of this rotation and many investors may be unprepared for what is to come. The strong performance of a handful of growth stocks has left global equity markets unbalanced, with many investors reluctant to shift away from the companies that have served them well through the crisis. However, it may be time to switch gears and think about recovery rather than crisis.

POSITIONING FOR ECONOMIC GROWTH

While there are risks to the vaccine rollout and the potential for resistant mutations of the virus, there are also reasons for optimism. For example, we see household finances as a powerful catalyst. For 12 months, many people have curbed their spending: holidays have been cancelled, commuting costs have disappeared and few have felt the need to update their wardrobe. A recent Bank of England survey showed around 28% of households had accumulated additional savings, mostly among wealthier and older people. Household savings ratios are at multi-year highs, hitting 16.9% in September 2020. We expect some of these savings to find their way into the economy once people have a little more certainty about the future.

At the same time, governments are likely to continue spending, particularly in the UK. As the architect of Brexit, the incumbent government will be keen to prove its success, which could see lower taxes and deregulation. The EU-UK free trade deal is not perfect, but it is a baseline. Subsequent free trade deals are likely to boost sentiment, highlighting that the UK remains open to the world. Gradually, this may start to unwind the Brexit discount that has been placed on the UK market.

The UK has undoubtedly been held back by the sector composition of its stock market as global growth was slowing. It has a higher weight in more economically-sensitive areas such as energy and financials. Just as this held the UK market back during a time of uncertainty, it should be supportive as the economy recovers and capital rotates into these unloved areas.

CHEAPER GROWTH

It is worth noting that many of the companies in our portfolio have been out of favour not because of underlying weakness in their business, but simply because they were unfashionable. The market has ignored many businesses whose operations have held up superbly well during the crisis.

The divergence in valuation multiples within the UK market has increased as investors follow simple rules of thumb that have worked very well during a prolonged period of falling bond yields, but which may come into question should the external environment ever change. The result is that investors could be over-valuing the earnings stream of certain businesses and significantly undervaluing the earnings stream of others.

The scale of the valuation opportunity is such that investors can position for recovery without taking on a huge amount of risk. We see many robust companies offering a combination of attractive yield and growth. Our experience tells us that the start of a new cycle offers the greatest opportunities, as this is when investors are at their most uncertain despite the burgeoning growth that lies ahead.

We are particularly excited about financial services companies which have weathered the downturn successfully and now look set to reap the benefits of the up-phase of the cycle. For example, emerging markets fund management group Ashmore turned out to be far more robust than the market anticipated, with a strong balance sheet supporting an attractive dividend and investment in growth.

DIVIDENDS

Covid-19 had a major impact on UK dividends and this has resulted in our portfolio income slipping back, requiring us to dip into reserves to support the payout to shareholders this year. We still have considerable reserves, but as a newly anointed AIC 'dividend hero', we are working hard to restore our portfolio income as soon as we can. Given the number of attractive income stocks available, we believe we can do so while remaining consistent in the investment process that we have set out. As well as adding to our holdings in attractively valued resilient income stocks, we are expecting around one fifth of our portfolio to reinstate dividends in 2021.

The long period of sluggish economic growth and low bond yields has conditioned investors to believe that there is only one formula that works. This has resulted in many well managed companies being left behind. While there are early signs of a shift in tone, we believe there is a very long way to go. Investors need to consider whether they are positioned for the economic recovery that lies ahead or the crisis that has just happened.

Company selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

Find out more by registering for updates or by following us on Twitter or LinkedIn.

	2016	2017	2018	2019	2020
Dividend yield (5)	3.73	3.72	4.06	5.37	8.17

Past performance is not a guide to future results.

Important information
Risk factors you should consider prior to investing:

- The value of investments and the income from them can fall and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Trust shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to
- realise investments and may lead to volatility in the market price of the Company's shares.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- The Alternative Investment Market (AIM) is a flexible, international market that offers small and growing companies the benefits of trading on a world-class public market within a regulatory environment designed specifically for them. AIM is owned and operated by the London Stock Exchange. Companies that trade on AIM may be harder to buy and sell than larger companies and their share prices may move up and down very sharply because they have lower trading volumes and also because of the nature of the companies themselves. In times of economic difficulty, companies listed on AIM could fail altogether and you could lose all your money.
- The Company invests in the securities of smaller companies which are likely to carry a higher degree of risk than larger companies.

Other important information:
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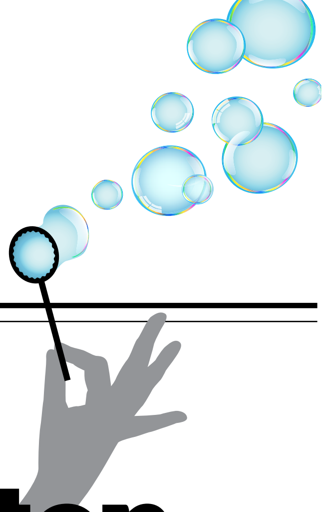
RUSS MOULD
AJ Bell Investment Director



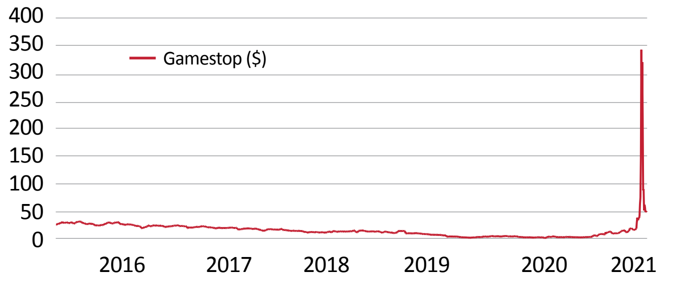
Blame game won't stop the next Gamestop

Why regulation can't necessarily stop bubbles from forming

Today's (18 February) Congressional hearing in Washington into what happened with shares in Gamestop should make for fascinating listening.

A host of luminaries – including Vlad Tenev from Robinhood, Ken Griffin from Citadel, Steve Huffmann from Reddit, high-profile retail trader Keith Gill ('Roaring Kitty') and Gabe Plotkin of Melvin Capital, the hedge fund pummelled by Gamestop's meteoric, if short-lived, surge – will all testify on Capitol Hill. Meanwhile, the American markets' key regulator, the Securities and Exchange Commission, is planning to produce a report to see what lessons can be learned.

Gamestop appears to have hit the buffers – at least for now



Source: Refinitiv data

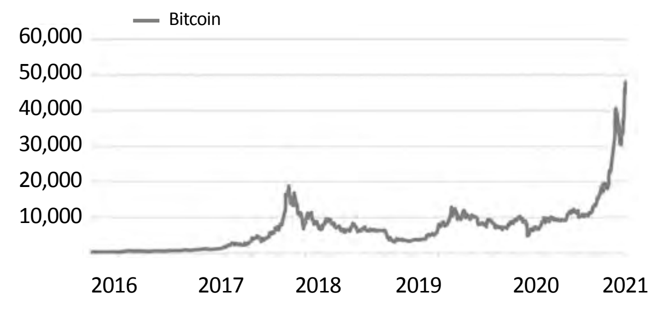
This column's suspicion is that tighter regulation will follow – but not yet. History suggests that will only come after a deeper, longer, bear market across equities more generally that inflicts pain on a far greater number of investors and traders than the shenanigans involving Gamestop.

That is when the real hunt for scapegoats and the apportionment of blame will begin, with hedge funds probably top of the list – even if, as Edward Chancellor writes in his excellent history of financial speculation *Devil Take the Hindmost*: 'Although short-sellers are invariably blamed for the collapse of stock markets, the problem is really caused by long-only buyers during the preceding bull market, who push stocks to unsustainable levels. No government has yet seen fit to ban stock purchases during a stock market bubble.'

EYE OF THE BEHOLDER

The tricky bit is defining a bubble. Former US Federal Reserve chairman Alan Greenspan went on the record as saying bubbles could only be spotted after the fact, after they have burst – by which time it was too late. Several current Fed officials, including chair Jay Powell, are now vigorously rebutting arguments that fresh bubbles are sprouting up everywhere, from Gamestop to Special Purpose Acquisition Companies (SPACs), to new company flotations and beyond.

Bitcoin keeps barrelling higher



Source: Refinitiv data

One person's bubble is another's bull market and profit opportunity (as owners of bitcoin will tell you). One way to judge whether are in a bubble (or not) is to follow the classic cycle of bubbles outlined by Charles P. Kindleberger in his

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AJ Bell Investment Director

magisterial history of financial mayhem, *Manias, Panics and Crashes*. The details of each episode may change but human behaviour clearly does not and the running order is consistent. Investors can therefore decide where in this cycle we might be right now.

1 The starting points are cheap credit and the prospect of a fabulous, new investment opportunity that offers the prospect of big gains (anything from tulip bulbs to railroads to Japanese property to technology stocks will do if the mood is right).

2 Initial price rises then catch the attention of newcomers, as 'fear of missing out' (FOMO) starts to gather steam.

3 Investment profits go into orbit and fresh money is attracted, often in the form of borrowed cash.

4 Copy-cats and imitators appear and more credit becomes available as asset prices keep rising.

5 Trouble starts. Insiders start to lock in their profits by selling at elevated prices. This leaves the last investors to get in holding the bag. Prices initially correct but then rally as loyal supporters 'buy on the dips'.

6 A new offering goes wrong and the queue of copy-cat flotations and management teams looking to sell their stock on a secondary basis lengthens. The supply of paper begins to outstrip demand and asset prices fail to reach their previous peaks.

7 Then comes a scandal, in the form of a fraud or bankruptcy. Investors realise they have been had and their money has gone.

8 Fear and revulsion replace greed, asset prices collapse as investors scramble to cut their losses and the blame game begins.

That takes us back to whether regulation is the only answer. This above potted history of every bubble from Dutch tulips in the 1620s through to American housing in 2007 would suggest not. Every meltdown has prompted regulation of some kind – from Sir John Banham's Act in 1734 in the UK through to Dodd-Frank Act in 2010 in America – but to no ultimate avail.

ACTION REPLAY

This is because human behaviour does not change (and the memory of prior disasters ultimately fades). As Warren Buffett once tartly put it: 'People start being interested in something because it's going up, not because they understand it, or anything else. But the guy next door, who they know is dumber than they are, is getting rich and they aren't. And their spouse is saying, can't you figure it out, too? It is so contagious. It's a permanent part of the system.'

Everyone will have their own views on whether we are in bubble territory or not and if so, in which asset classes. But if we are in a bubble, then investors face an invidious choice: either to be wrong by taking profits too early or to be wrong by trying to get out too late.

How investors go about addressing that challenge will be a matter of personal taste, financial circumstance and risk appetite but industry professionals will generally take the latter option (at least based upon this column's experiences as an equity analyst at a leading investment bank for 12 years).

It is less obvious that you have erred (and less career-threatening) if you go over the cliff with everyone else, instead of standing aside as asset prices surge higher. Plus, even if a forecast of imminent doom is right, no thanks are offered, only blame to the Cassandras who sowed the first seeds of doubt.

POLAR CAPITAL

Value matters eventually

Nick Brind, co-manager of the Polar Capital Global Financials Trust plc

Trust Highlights

- The only UK-listed investment trust focused solely on financials
- Historic Yield 3.2%[1]
- Actively managed and not benchmark-driven
- Broad global, multi-cap remit
- Managed by a team of 7 sector specialists with over 100 years' investment experience

Financials remains one of the cheapest equity market sectors. Their prices jumped sharply following the positive vaccine news in November, as the sector is one of the biggest beneficiaries of economies opening up. The improving outlook has driven the rally as confidence in the earnings outlook for the sector over the next couple of years has risen sharply. This should not be a surprise.

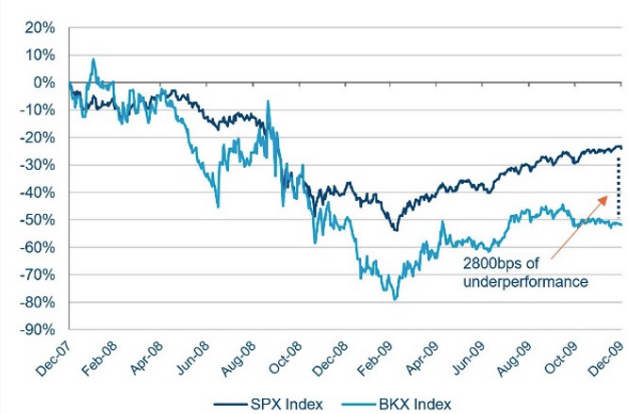
Right now, the sector has discounted a much worse downturn than actually happened, thanks to government and central bank actions to reduce the economic impact of lockdowns and changes in spending patterns. Looking at previous recessions/

market falls, having discounted the bad news financials have outperformed almost immediately, whether it was the failure of LTCM in 1998, the TMT bubble in 2000, Iraq war in 2003, the global financial crisis, the eurozone crisis or the UK referendum in 2016. This time is no different and history suggests there is much further to go.

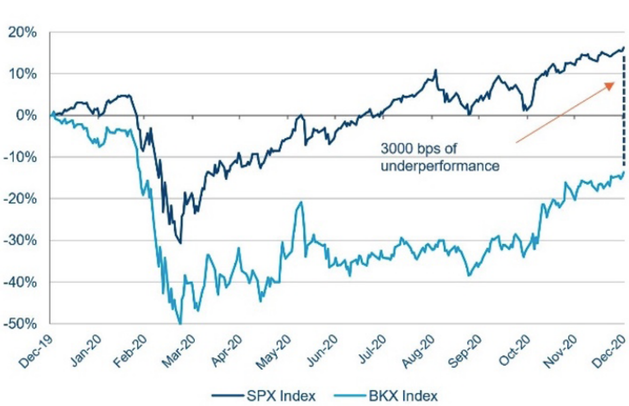
Earnings for the sector are forecast to be up 38.9% in 2021 and 10% in 2022, led by the recovery in the earnings of bank shares as new accounting rules have forced banks to make loan loss provisions much earlier in the cycle than previously. As a result, these provisions were set when the outlook in the middle of 2020 was much cloudier and will prove to be too conservative.

The surprise of this downturn was that last year banks' shares, as illustrated by the chart below,

S&P500 vs KBW Bank Index in 2008/2009[2]



S&P500 vs KBW Bank Index in 2020[2]



Source: 2. Bloomberg, 31 December 2020.

[1] Source: Polar Capital and Bloomberg as at 29 January 2021. Past performance is not indicative or a guarantee of future results.

underperformed by more than they did in the global financial crisis, when banks failed and confidence in the financial system collapsed. Today, bank balance sheets are strong and they have been part of the solution, providing a conduit for government-guaranteed lending to support businesses and allowing individuals and businesses to take payment holidays.

Regulators are likely to remove all remaining restrictions on banks paying dividends and buybacks this year. US and Asian regulators took a pragmatic approach in allowing banks to continue to pay dividends last year albeit capping the payout levels. In December, the Fed announced banks could restart buybacks, which will be accretive to earnings.

Insurance companies are also benefiting from the recovery, on the back of an acceleration in the increase in insurance rates for commercial businesses as losses due to business interruption claims and the cancellation or delay of sporting events such as the Olympics fall away. Asset managers and stock exchanges are also riding the recovery as fees generated from higher turnover from trading or the jump in assets under management from higher equity markets boosts profitability.

Against this background, share prices of some growth companies are hitting stratospheric multiples. As interest in stock markets and crypto currencies surges the risks of a repeat of 2000 come to mind – share prices are jumping on little/no news; companies with little/no revenues have seen multiples on their business that defy logic. Some investors are saying value no longer matters, however value always matters eventually.

A basket of global financials purchased on the eve of the financial crisis in May 2007 would have returned 60%+ to today. By comparison, if you had

bought a basket of global technology shares on the eve of the collapse in technology shares in March 2000 you would still be nursing a loss of over 45% over the same time period because your starting valuation was so high – and still have to wait another three years (16 in total) just to get your money back.

The financials' sector, despite the recent bounce, has seen a significant derating in its relative valuation to global equity markets over recent years. Investors rightly focused on growth in recent years risk missing out on the rotation into those areas of the market hit hard by lockdowns which have much more upside.

Global financials have risen 55% over the past five years versus UK financials' rise of only 17.5%. One way to get exposure is via the Polar Capital Global Financials Trust, launched in 2013 to give investors a lower-risk way of getting exposure to the sector. It has around 50% of its portfolio invested in bank shares predominantly in the US and Asia but also Europe and the UK, along with exposure to other subsectors such as insurance, payments and asset managers. Its dividend yield is close to 3%.

Creating a plan to invest cash saved during lockdown

43-year-old Shaheen already pays into a pension and wants to put more money aside

Shaheen has been saving money during lockdown and now has excess cash he wants to put to work in the markets.

The 43-year-old already has shares in the banking firm for whom he works through a SAYE (save as you earn) scheme and has additional exposure to the markets through a defined contribution pension, with money going into a mix of UK, US and emerging market stocks and bonds.

He has paid off a significant portion of his mortgage, accumulated a rainy-day savings pot worth three months' salary in an easy-access Cash ISA, and has no significant credit card or bank debt.

Shaheen wants to build up a nest egg which could potentially help him towards a targeted retirement age in his late 50s. Being stuck at home in lockdown means he is spending £400 a month less on commuting, gym membership and meals out. He has put aside 10 months' worth of these savings since the first lockdown restrictions began in mid-March 2020, adding up to £4,000.

He wants to use that money to invest now and find a way to keep squirreling away £250 a month into stocks or funds (on top of his pension contributions) once lockdown ends. Shaheen is confident of having this spare cash every month as he intends to cycle to work which not only saves money on train fares but also keeps him fit, meaning he can cancel his gym membership.

He has some knowledge of the markets but wouldn't describe himself as an expert. Shaheen's goal is to achieve an annual return of at least 6%.

This is the first part in a regular series in which we will provide an investment clinic based on hypothetical scenarios. By doing so we aim to provide some insights which can help different types of investor from beginners all the way up to experienced market participants.

IS THAT A REALISTIC GOAL?

The first thing to note is that Shaheen is in a good place to start investing more. He's already putting money into his pension every month with his employer also making contributions. He has a decent level of emergency savings and, even in his best-case scenario, he is still more than 10 years away from retiring which provides some time to absorb any short-term market volatility.

With interest rates so low, there is a good case for investing spare cash so that the money can work a bit harder.

A 6% return feels realistic, particularly once you factor in dividends. On a total return basis (encompassing capital gains and reinvested income) the FTSE All-World index has delivered an annualised 6.8% over the last 10 years.

To shelter these returns from capital gains and income tax it is worth considering a Stocks & Shares ISA. Even having used some of the current year's ISA allowance in cash, Shaheen still has plenty of headroom to the generous £20,000 annual limit across the different types of ISA. It's worth noting that he is too old to qualify for a Lifetime ISA.

In terms of getting started it might make sense to put his £4,000 lump sum into a Stocks & Shares ISA and to spread it across a variety of investments. Going forward and assuming £250 monthly deposits into his ISA, he might want to invest £500 in a single asset every other month.

Dealing fees are often charged at a flat rate so, in percentage terms, the more you are putting in the lower your costs. A typical £10 charge to buy shares in a company, investment trust or exchange-traded fund would equate to 2% of a £500 investment – but a less appealing 4% if investing £250 once a month.

Setting up a direct debit to fund the ISA is also a good idea as it will take the hassle out of remembering to transfer funds.

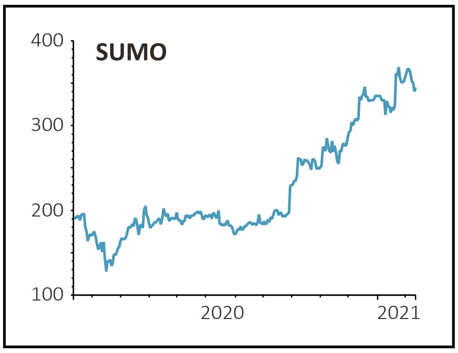
INVESTMENT OPTIONS TO CONSIDER

Given his pension includes a diversified mix of global stocks and bonds, Shaheen already has a solid 'core' to his investment portfolio. He could therefore consider adding some 'satellite' holdings to an ISA which are higher risk in nature.

One option is for Shaheen to buy shares in individual companies, with an argument for looking outside the banking sector given he already has exposure through owning shares in his financial services industry employer.

To begin with, it might make sense for Shaheen to look at businesses where he is familiar with their products or services as it is important to invest in things you understand. In this situation, it would be worth him taking the time to read some annual reports to get a clear idea of a company's performance and prospects before buying their shares.

He likes to play games on his Nintendo Switch at home, so Shaheen might want to look at the computer games sector as he should know which games are popular and the companies that make them. One that might appeal is **Sumo (SUMO:AIM)** which started life as a 'work for hire' games developer and has since gone on to develop its own intellectual property.



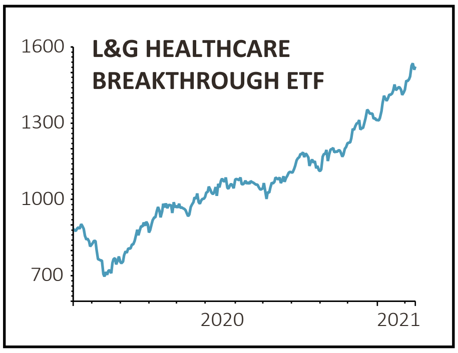
Another option for Shaheen is to buy a thematic exchange-traded fund that plays into a

FINANCIAL BENEFITS OF LOCKDOWN

LOCKDOWN SAVINGS: Shaheen has saved £400 a month since March 2020 as he hasn't had to incur costs associated with commuting, gym membership or eating out. He wants to invest that saved money.

GOAL ONCE LOCKDOWN ENDS: Save £250 a month by cycling to work and not returning to the gym – and invest that money.

specific investment theme. For example, **L&G Healthcare Breakthrough ETF (DOCG)** would provide Shaheen with exposure to innovation within healthcare, across both developed and emerging markets. It has an in-built charge of 0.5% a year to cover the costs of running the product.

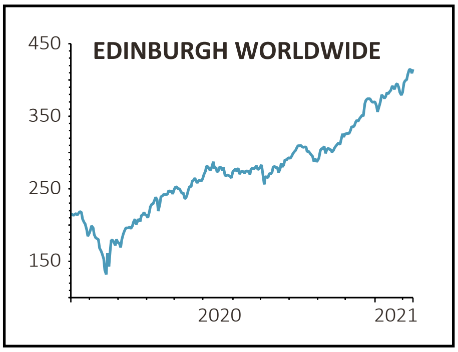


Shaheen would have to pay additional charges on top to his investment provider, such as the cost of buying shares in the ETF and potentially ongoing custody fees. The same would apply when making other investments, such as buying shares in individual companies, funds and bonds.

A third option for Shaheen is to buy a fund or investment trust which invests globally in smaller companies. While small caps typically come with higher risks there can be more room for growth than with larger, more mature firms.

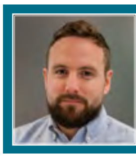
There are five investment trusts in the Association of Investment Companies' Global Smaller Companies sector. The only one to have a consistent top quartile position for performance over one, three, five and 10 years is Baillie Gifford-run **Edinburgh Worldwide (EWI)**, according to FE Fundinfo data which shows it has generated 607% total return over 10 years.

While strong performance over a long timeframe would suggest the people running Edinburgh Worldwide know what they're doing, it is important to consider that what's done well in the past isn't guaranteed to do well in the future.



The investment trust invests in companies which it believes to offer long-term growth potential. The companies are typically valued at less than $5 billion at time of initial investment, but Edinburgh Worldwide will often hang on to them as they become a lot bigger. That explains why you have some very large companies like Tesla in the portfolio as well as smaller ones like engineer **Ricardo (RCDO)**.

DISCLAIMER. This article is based on a fictional situation to provide an example of how someone might approach investing. It is not a personal recommendation. It is important to do your research and understand the risks before investing.



By **Tom Sieber**
Deputy Editor

Funds, investment trusts and ETFs that pay dividends every month

Weighing up options for people in retirement as they seek ways to pay monthly bills

Having worked hard for decades and squirrelled away money for later life, once in retirement individuals need to find a way of generating an income to replace the money that used to come from pay packets.

The state pension is a useful source of income but for many it isn't enough to pay the bills. That puts a lot of emphasis on investments being a key source of cash to cover the cost of heating, electricity, council tax and so on.

Traditionally funds, stocks and bonds pay dividends or coupon payments once every three or six months. However, funds are increasingly speeding up their payment frequency to meet demand from retired individuals who want a monthly inflow of cash to help fund their monthly outgoings.

60 FUNDS ON OFFER

According to data from FE Analytics, there are currently around 60 funds available to UK retail investors which pay, or at least in the year before the pandemic paid, a monthly dividend.

Most of the highest yielding funds are what's called 'enhanced income' funds. These funds normally pay a slightly higher yield than a standard income fund because they sell options on some of their holdings. This gives the purchaser the right, but not an obligation, to buy a stock from the fund at a pre-determined 'strike' price on a specific future date.

For this service, the fund receives a premium regardless of whether the option is exercised or not. If the stock's price does not hit the strike price by the time the contract expires the fund keeps the premium, which is distributed to investors as part of the overall dividend which also includes some or all of the natural income from the portfolio.

If the strike price is reached the fund keeps the premium, but it must pay any additional

INCOME FINDER SERVICE

To help people find some of the best dividend-payers out there and organise payments into a smooth monthly schedule, investment trust organization the Association of Investment Companies (AIC) has developed something called the Income Finder.

It enables investors to create a virtual portfolio of income-paying investment trusts, also known as investment companies, track their dividend dates and see how much income they could receive over a year.

This allows investors to customise their investment trust portfolio to smooth monthly income over the year, ensuring there are no periods without dividend payments, or shape income to meet their needs.

For more information on this, head to theaic.co.uk/income-finder.

increase in the stock's value over and above the strike price to the purchaser. That means the fund's upside is limited – hence the investor is giving up potential gains in exchange for a higher dividend.

Other than that, monthly dividend-paying funds mostly feature in three main categories – bonds, property and multi-asset funds.

For this article, we're going to focus on funds that pay a decent 3% yield or above. We take a look at monthly dividend paying funds, investment trusts and exchange-traded funds (ETFs) in each asset class and discuss the things you need to know, plus we suggest some funds to buy.

BONDS

MOST BOND FUNDS that offer a monthly dividend tend to be ones that invest in high yield bonds, which are bonds rated below investment grade (bonds that are considered to have a lower risk of default), though there are some like **Baillie Gifford Strategic Bond (0594774)** which invest in both investment grade and high yield.

A non-investment grade rating is important as it suggests there is a greater chance of an issuer's default, when the company does not pay the coupon/interest due on a bond or the principal amount due at maturity in a timely manner.

Consequently, non-investment grade debt issuers must pay a higher interest rate – and in some cases they must make investor-friendly structural features to the bond agreement – to compensate for bondholder risk, and to attract the interest of institutional investors.

High yield corporate bonds are invariably risker than others like UK government bonds, also known as gilts, for example, but in the bond market it's the classic case of the higher the risk, the higher the reward.

Plus, most of the bonds in the majority of respectable high yield bonds funds come from large, well-known companies with strong balance sheets, so while there is higher risk, it's not exactly like dabbling in cryptocurrencies.

Take monthly dividend payer **Threadneedle High Yield Bond Fund (B7SGDT8)** as an example. The top five bonds it holds come from Japanese tech investment giant Softbank, carmaker Fiat Chrysler, French telecoms company Altice (the second biggest in France behind Orange), Netflix and energy supplier EDF. Altice is the smallest company among that list, yet still has a market value of over £7 billion.

Monthly dividend paying bond funds

Name	2020 Yield	Type
Pimco US High Yield Corporate Bond	5.26%	ETF
BNY Mellon Global High Yield Bond	4.61%	Fund
Vanguard USD Emerging Markets Government Bond	4.50%	ETF
JPM USD Emerging Markets Sovereign Bond	4.30%	ETF
iShares JP Morgan USD EM Bond	4.06%	ETF
Threadneedle High Yield Bond	3.79%	Fund
Fidelity Global High Yield	3.70%	Fund
Baillie Gifford Strategic Bond	3.42%	Fund
Royal London Corporate Bond Monthly Income Trust	3.34%	Fund
Vanguard USD Corporate Bond	3.03%	ETF

Source: FE Fundinfo

SHARES' TOP PICKS

BAILLIE GIFFORD STRATEGIC BOND (0594774)

The Baillie Gifford Strategic Bond fund stands out as a top pick for someone looking for monthly

income from a bond fund.

It has a good track record of paying decent dividends with historic yields ranging between 3% and 3.5% over the past five years, while it also offers potential for good capital growth ahead of inflation with a five-year annualised return of 6.95%. It is also a lot cheaper than many other bond funds with an ongoing charge of 0.52% a year.

The fund's stated aim is to produce monthly income, though opportunities for capital growth are also sought subject to prevailing market conditions. Top holdings include bonds from Netflix, **National Grid (NG.)**, Virgin Media and Time Warner Cable.

It's worth noting that yields are currently very low across the bond market and there is no guarantee that you'll get 3% yield in the near-term.

VANGUARD USD CORPORATE BOND ETF (VUCP)

There aren't many ETFs that pay a monthly dividend, but one which does in the bond space is **Vanguard USD Corporate Bond ETF (VUCP)**. ETFs track the performance of a basket of assets, so in this case a basket of bonds. They are typically lower cost than an actively managed fund.

The Vanguard ETF tracks the performance of 5,690 bonds, yielded just over 3% in 2020, and offers the potential for capital growth as evident by its three-year annualised total return of 7.13%. It charges 0.09% a year.

PROPERTY

FUNDS AND INVESTMENT trusts can give investors access to a wide range of properties across different sectors and potentially geographies.

In theory they should be able to rely on rental income from these properties and potentially benefit from any capital appreciation, which should translate into solid investment returns.

It's important to be aware however that many open-ended property funds have suspended dealing in times of difficulty in the past, meaning investors have been unable to withdraw their money.

This happened most notably straight after the Brexit vote and then more recently during the market sell-off in March as the UK went into lockdown, with funds unable to accurately value their underlying properties in fast-moving markets.

Investment trusts are often seen as a better vehicle for less liquid assets like property, which are harder to buy and sell in short order, because they are listed on the stock market and the fund managers don't have to factor in redemptions to how they invest. However, they will typically trade at a discount to net asset value at times of stress.

A lot of property funds, particularly ones paying monthly dividends, have big exposure to commercial property. There is a debate whether investing in commercial property is still a viable option and whether it can be relied upon for income in the same way as before, given the shift to online shopping and working from home.

Monthly dividend paying property funds

Name	2020 Yield	Type
Aegon Property Income	5.23%	Fund
Ediston Property Investment Company	4.60%	Investment trust
BMO Commercial Property Trust	3.37%	Investment trust
Royal London Corporate Bond Monthly Income Trust	3.34%	Fund
Vanguard USD Corporate Bond	3.03%	ETF

Source: FE Fundinfo

PROS AND CONS

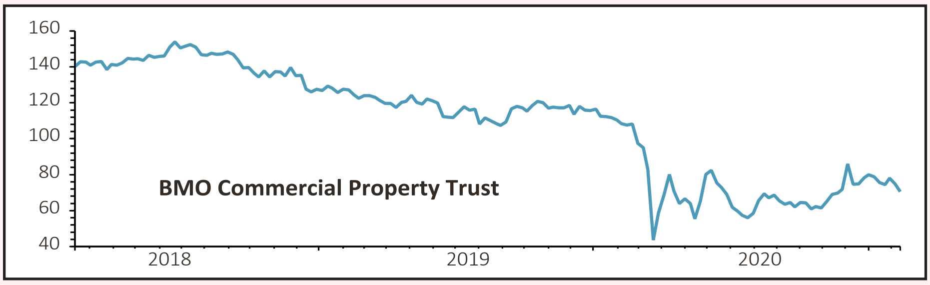
A good example is FTSE 250 investment trust **BMO Commercial Property Trust (BCPT)** which for a long time paid 0.5p per share dividend every month but had to stop payments for a period amid the height of the pandemic.

Dividends restarted in August at the lower rate of 0.25p per month and they've been paid every month since. Importantly, dividends are now starting to go up – rising 40% in December to 0.35p. On an annualised basis that equates to a 5.9% yield based on a share price of 70.7p.

Although uncertainty remains regarding the impact of continued lockdown restrictions on the trust's portfolio and tenants, it expects to continue paying dividends at this rate for the foreseeable future.

'BMO Commercial Property's 0.5% increase in net asset for the three months to December is a positive step for the fund, following NAV declines in each of the first three quarters of 2020,' says the investment trust team at Numis.

'The modest capital increase in portfolio value masks the continued divergence in performance of underlying sub-sectors in the portfolio with industrial and logistics assets performing strongly in sharp contrast to the retail assets as well as alternative assets exposed to the leisure sector.'



Investors need to weigh up whether a 5.9% yield is a good enough reward for risks around rent collection, particularly as the backdrop for some of its tenants remains unfavourable.

This is very important – if you're relying on your pension or ISA to provide income in retirement, you must think very carefully about the risks you are taking.

MULTI-ASSET FUNDS

IF THE PROPERTY space currently seems like too much of a headache, more comfort could be found in multi-asset investments.

Multi-asset funds and trusts are those that invest in a range of different things, most commonly stocks, bonds and other assets like property or commodities like gold.

They have been growing in popularity for a while as investors seek a one-stop shop for their money, with the funds having the freedom to invest wherever they see fit to meet their objectives.

A lot of funds in this sector have generally held up well following the March sell-off, though the diversification they provide while helping limit the downside, also means returns aren't as strong when markets are rising.

Monthly dividend paying multi-asset funds

Name	2020 Yield	Type
Aviva Investors Multi Strategy Target Income	4.31%	Fund
Premier Miton Cautious Monthly Income	4.31%	Fund
FP Russell Investments Multi Asset Income	3.95%	Fund
Fidelity Multi Asset Income & Growth	3.87%	Fund
Fidelity Multi Asset Balanced Income	3.83%	Fund
Fidelity Multi Asset Income	3.70%	Fund
TB Wise Multi-Asset Income	3.48%	Fund
Baillie Gifford Multi Asset Income	3.45%	Fund

Source: FE Fundinfo

SHARES' TOP PICK

PREMIER MITON CAUTIOUS MONTHLY INCOME (B79QBF9)

Premier Miton Cautious Monthly Income invests across the major asset classes including company shares, government bonds, corporate bonds and gold, together with a very small amount in cash and property. It has a decent track record of dividend payments and capital growth.

It has a historic yield of 4.3% based on payments from 2020 and has delivered a five-year annualised return of 6.83%. It has a reasonable ongoing cost of 0.81% a year.

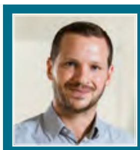
The fund distributes income on a monthly basis with 11 equal payments and whatever's left in the pot at the end of the year.

By **Yoosof Farah**
Reporter

How will changes to the pension age impact me?

The age at which you can access your retirement savings is set to move up to 57

I am 45 years old and currently have a SIPP worth around £130,000. Will I be able to access this at age 55 or will I have to wait until I'm 57?
Andy



Tom Selby
AJ Bell
Senior Analyst says:

Under current UK retirement rules, usually people can access their pension from age 55.

When the pension freedoms rules were first announced back in 2014, the Government said this age – the 'normal minimum pension age' – would rise to 57 from 2028, alongside the increase in the state pension age to 67.

At the time, 'the Government said this was in order to reflect trends in longevity and to encourage individuals to remain in work and to build sufficient savings for retirement'.

In the future the intention is for the normal minimum pension age to remain ten years below the state pension age.

WORKING THROUGH THE DETAILS

The Government is now working through details of how the increase in the normal minimum pension age to 57, scheduled for 6 April 2028, will be applied.

It has confirmed people in the armed forces, firefighters and police will be exempt from the rise and so will still be able to access their pension from an earlier age.

People in schemes which contain specific provisions allowing them to access their pension before age 57 will also be able to retain their lower normal minimum pension age. This protection is expected to cover both existing and future benefits in the scheme.

However, for pensions without such provisions and new pensions set up from 12 February 2021 the scheduled increase in the normal minimum pension age to 57 is expected to apply.

In your case, assuming your current scheme doesn't give you 'the right' to take your benefits from age 55, then it is likely the first point you will be able to access your SIPP will be age 57 (although it's important to note these proposals are subject to consultation).

While this increase in the normal minimum pension age may come as a blow to some people, it is important to remember that just because you can access your pension doesn't mean you should. It's worth bearing in mind that someone in their mid-50s might have another 35 years or more to live.

Anyone accessing their fund

this early therefore needs to think carefully about the sustainability of any withdrawals and the impact they might have on their lifestyle as they grow older.

Finally, if you have a defined benefit (DB) pension the age at which you can take an income will be determined by the 'normal pension age' in your scheme rules. You may, if the scheme rules allow, also be able to access your pension earlier than this at a reduced rate.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

Are annuities still relevant to investors and how much could you get?

The idea of a guaranteed income for life will appeal to a lot of people

In 2015, sweeping reforms gave people over 55 unlimited access to their pension schemes for the first time, and prompted Steve Webb, the pensions minister at the time, to suggest pensioners could blow their cash on Lamborghinis if they wanted.

There hasn't been a noticeable proliferation of supercars on the streets of retirement havens like Eastbourne, but there has been a significant shift in how people draw on their pensions. In particular, sales of pension annuities, previously the most common way to draw on a pension, have fallen off a cliff.

In places like Eastbourne, there has been a significant shift in how people draw on their pensions

WHAT IS AN ANNUITY?

Prior to 2015, the main way you would draw on your pension was by buying an annuity. In exchange for the lump sum you had built up in your pension, insurers would pay you a set amount every year for life.

Insurers combine investments in fixed interest products with their expertise of mortality trends, to calculate how much to pay out to members, plus a little profit for themselves.

WHY ARE ANNUITIES NO LONGER POPULAR?

It's probably fair to say that even in their heyday, pension annuities weren't 'popular' as such. People bought them reluctantly, mainly because the alternatives were expensive or complicated, or both.

Many people objected to the fact that if they die only a few months or years after taking out an annuity, all the money they have spent their life building up is gone, at least as far as they and their beneficiaries are concerned. It is a fair point.

However, pension savers probably failed to fully appreciate the flip side of the coin, that if they were still going strong at age 100, their annuity would still be providing them with a regular income.

When the pension rules changed in 2015, the stage was set for annuities to take a back seat, as people simply drew their pension as cash, or invested it and drew an income from bonds and shares instead.

Low interest rates have also made annuities look unattractive. Insurance companies invest most of the money they get from selling annuities into government and corporate bonds, and these provide the returns annuity members effectively share.

As interest rates have sunk, so have the yields on these bonds and consequently so have annuity rates.

HOW MUCH COULD I GET?

A standard annuity for a 65-year-old will now offer you an annual income of around 4.5%, so for each £100,000 you provide to an annuity company, they will provide you with an income stream of £4,500 every year, for the rest of your life.

That compares with a rate of around 7% before the global financial crisis of 2007/2008 and the introduction of 'emergency' interest rates, which were, remarkably, higher than they are today.

If you compare this with an investment portfolio, it's easy to see why people are taking advantage of the new pension rules which let people aged 55 and over access their defined contribution or money purchase pension pot in whatever way they want.

An equity income portfolio will probably deliver a yield somewhere in the region of 4%, though unlike an annuity, investment income is variable, and will go down at some points such as we saw in early 2020.

But unlike an annuity, you also keep hold of your capital, and over time, you would expect the dividends in your portfolio to grow with company earnings.

SHOULD I BUY AN ANNUITY?

At the moment buying an annuity with your pension means locking into low interest rates, but there are some circumstances in which you might wish to do it.

One thing an annuity does offer is certainty. It might not pay out a king's ransom every year, but what it does provide is guaranteed for the rest of your life.

You do need to be wary of the effects of inflation. If you opt for a level annuity with a fixed payment every year, rising prices will gradually eat into its buying power, and because an annuity can run for 20 or 30 years, possibly more, that effect can be extremely potent.

You can buy an annuity which pays out an inflation-linked income, but this will start at a lower level. For example, currently a 65-year-old could expect about 2.8% from an annuity that rises each year in line with the RPI measure of inflation, compared to 4.5% from one which simply pays a level amount for good.

You might also consider buying an annuity if you've got health issues. Some insurers offer enhanced annuities, which provide higher levels of income for those who have certain health problems that are likely to reduce their life expectancy.

These don't have to be life threatening conditions; you can apply for an enhanced annuity if you have high blood pressure, diabetes, or are a regular smoker. An insurance company might give an uplift to your annuity income of 10%, maybe more, depending on your circumstances.

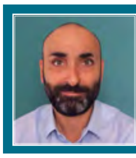
IS IT WORTH SHOPPING AROUND?

If you do decide to buy an annuity, make sure you shop around for the best rate. As with many insurance products, the path of least resistance is likely to be the costliest, so don't simply accept the first annuity you're offered by your pension provider.

After all, this is a one-off transaction which will affect you for the rest of your life, so it's much more important than shopping around for car or home insurance.

Also bear in mind that you don't have to choose between an annuity and investing your pension to provide an income, you can split your pension pot and do a bit both.

By mixing and matching, you can secure a base level of income using an annuity and invest the rest to hopefully provide a variable stream of dividends that should hopefully grow in the long term.



By **Laith Khalaf**
Financial Analyst

More tricks and tips for analysing company financial statements

What you need to know about the balance sheet and cash conversion

The best way to test the theory around the analysis of company accounts is to put that theory into practice using a real-world example.

In the second part of our in-depth examination of food producer **Cranswick (CWK)** we look at the strength of its finances and how effectively it turns revenue into cash flow.

We then examine the factors which determine how much money investors might expect to make if historical growth trends are maintained.

BALANCE SHEET STRENGTH

As a reminder there are two types of financial risk that investors should monitor closely, liquidity and solvency. Liquidity risk refers to short term financing of day to day operations while solvency risk is more about long term viability.

Looking first at liquidity risk, the tables show that Cranswick's current assets easily cover current liabilities, indicating a current ratio of 1.7 times.

The more stringent quick ratio, showing the company's ability to pay its current liabilities without needing to sell inventory, indicates it has the necessary short-term cash and equivalents

with a ratio of 1.

In addition, Cranswick has a £200 million unsecured credit facility with £100 million of headroom which runs until November 2023. Banks always prefer to lend against collateral (assets) to protect themselves against potential loss.

So, when you see situations where banks are willing to provide substantial amounts of unsecured loans you can be assured that the bank isn't worried about the creditworthiness of the company.

Looking at the solvency risk, the tables show that Cranswick has a low debt to equity ratio of 27% (debt of £168 million and equity of £615 million).

Equity finances 62% of the total assets of the business, which signals a healthy position.

We have highlighted before that accounts only provide a snap-shot of the business and therefore looking at historical trends is more informative. In this light, Cranswick has historically run its business with low financial gearing.

Net debt increased in 2020 as a result of one-off items; the company recognized lease liabilities of £66 million under new accounting rules; it acquired Continental foods supplier Katsouris Brothers for £69 million; the company also invested heavily in its infrastructure and added £97 million to the asset base.

Cranswick generated £155.3 million of EBITDA (earnings before interest, taxes, depreciation, and amortisation) in 2020 while net debt was £147 million, resulting in a net debt to EBITDA ratio of 0.95 times.

This a low leverage ratio and not a concern for lenders or shareholders. Ratios under three are considered investment grade which means the loans are unlikely to go bad.

The company has a defined pension scheme which has a small £7 million surplus, which means there is no need to adjust the net debt figure.

CASH FLOW MANAGEMENT

The long-term trend in cash management shows the company has been taking longer to convert inventory into cash, from 20 days to 30 days. It has also taken longer to collect receivables (outstanding invoices) which have increased from 34 days to 44 days.

At the same time payment terms to suppliers has remained stable around 28 days. This means the cash conversion cycle has widened out and working capital as a proportion of revenue has doubled to 12% (£194 million).

One possible explanation is that supermarkets, which represent the largest channel for Cranswick have been leveraging their scale advantage and pricing power to delay payments.

SHAREHOLDER RETURNS ARE LINKED TO PROFITS GROWTH

As a reminder, shareholder returns are comprised of dividends and capital gains (rising share prices). Capital gains are driven by future profit and cash flow. This means over long periods share prices follow profits.

Over the last 50 years earnings per share for the UK stock market have grown by roughly 6% a year.

Investors can easily get access to this profit growth by purchasing a tracker or exchange traded fund (ETF) very cheaply.

Therefore, for Cranswick to make sense as a long term

Cranswick cash management analysis

	2012	2015	2020
Revenues (£m)	821	1,003	1,667
Cost of Goods Sold (£m)	719	879	1,446
Receivables (£m) A	76	104	200
Inventories (£m) B	39	60	117
Payables (£m) C	63	82	123
Days Sales Receivables (Days)	34	38	44
Days Sales Inventory (Days)	20	25	30
Day Sales payables (Days)	28	30	27
Cash Conversion (Days)	26	33	46
Inventory Turnover (Times)	19	15	12
Receivables/ Sales	9%	10%	12%
Inventory/Sales	8%	8%	7%
Payables/ Sales	5%	6%	7%
Working Capital (£m) (A+B-C)	52	82	194
% of Sales	6%	8%	12%

Source: Refinitv, Stockopedia

Cranswick balance sheet analysis

	£m
Fixed Assets	
Plant and Machinery	426
Intangibles	207
Current Assets	
Inventories	117
Accounts receivable	200
Cash	21.5
Other	25
Total Assets (A)	996.5
Long Term debts (Liabilities)	168
Current Liabilities	123
Other	91
Total Liabilities (B)	382
Shareholders' Equity (A-B)	614.5
Total Liabilities+Equity	996.5

Source: Stockopedia, Refinitiv

RATIO ANALYSIS

Solvency Ratios	
Debt to Assets	17%
Debt to Tangible Assets	21%
Debt to Equity	27%
Equity to Total Assets	62%

Liquidity Ratios	
Current Ratio	1.7
Quick Ratio (Acid Test)	1.0

Source: Stockopedia, Refinitiv

investment we should expect its earnings to grow faster than the market's.

BEING ROUGHLY RIGHT

As Warren Buffett said, it's better to be roughly right rather than precisely wrong. Because the future is unknowable, it is better trying to figure out what is probable rather than making an explicit forecast.

As we highlighted last week, Cranswick has grown pre-tax profit at a CAGR (compound annual growth rate) of 17% a year and dividends at 10% a year over the last 30 years.

However, over the last 10 years the rate of growth has slowed to 8.9% a year. As companies get larger, their growth rate tends to fall.

According to Sharepad data, analysts expect pre-tax profit growth of 25% over the next three years which equates to a CAGR of 7.7% a year. Dividends are expected to grow 7.2% a year.

On balance, the evidence suggests that Cranswick is capable of growing earnings faster than the market.

As a proxy for calculating future total return we add profit growth to the dividend yield (7.7%+1.97%) which gives a value of 9.7%. Remember things may play out very differently in the future for a variety of reasons that we failed to predict.

CAVEATS

We are making an explicit assumption that the multiple which investors are willing to pay for future profits remains roughly unchanged. Predicting future multiples is fraught with difficulty and is unknowable.

In this context it is wise to remember Isaac Newton's famous quote, 'I can calculate the movement of stars, but not the madness of men'.

In February 2021 Cranswick shares traded on 18.4 times next year's earnings according to Stockopedia data, which was at the lower end of the range over the previous five years. (High 28.9, low 16.6)

This at least provides some comfort that the rating is nearer the bottom end of the range rather than the top.

Each investor must weigh their individual risk appetite against the potential rewards on offer before coming to a decision. Lastly, remember that building a diversified portfolio is just as important as single stock analysis.

By **Martin Gamble**
Senior Reporter

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

19 February: NatWest, Segro, TBC Bank. **22 February:** BATM Advanced Communications, RTC. **23 February:** Conduit Holdings, Croda International, HSBC, InterContinental Hotels. **24 February:** Lloyds, Petrofac, William Hill. **25 February:** Anglo American, BAE Systems, Centrica, Derwent London, Drax, Evraz, Grafton, Hikma Pharmaceuticals, Howden Joinery, Impax Environmental Markets, Inchcape, KAZ Minerals, John Menzies, Mondi, Morgan Sindall, National Express, Serco, Spectris, St James's Place, Standard Chartered, Vistry.

Half year results

22 February: Dechra Pharmaceuticals, Finsbury Food, Tristel. **23 February:** Clinigen, Diurnal, McBride, Springfield Properties. **24 February:** Haydale Graphene Industries, Netcall, Town Centre Securities. **25 February:** Cap-XX, dotDigital, Genus, Ricardo.

Trading statements

22 February: Associated British Foods.

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