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- The difference in risk between cash, bonds and shares
- How much you need to invest to hit your goals

Why a change of name is often a cheap trick

Royal Bank of Scotland's plan to be renamed NatWest won't fix its underlying problems

You can put lipstick on a pig but it is still a pig. This colourful analogy came to mind after the news that **Royal Bank of Scotland (RBS)** plans to seek shareholder approval to change its corporate name to NatWest.

This would represent the third high profile name change of a UK-listed firm in the last three months. In December Mike Ashley's retail vehicle Sports Direct became **Fraser's (FRAS)** followed by Bovis Homes becoming **Vistry (VTY)** in January.

Each company could point to some justification for the change. NatWest is RBS' biggest brand and Sports Direct was looking to move upmarket so Fraser's is probably a more appropriate moniker for that strategy. Adopting the Vistry brand was part of a bigger strategic change which saw Bovis acquire assets from **Galliford Try (GFRD)** at the start of 2020.

However, it is hard to escape the feeling that the respective companies are, to some extent, trying to sweep negative history under the carpet.

WHAT'S IN A NAME?

RBS is still most synonymous with its part in the credit crunch and the actions of its disgraced former CEO Fred Goodwin. The Sports Direct chain has a reputation as a 'pile 'em high, flog 'em cheap' operator and Ashley has had a tortured relationship with the City. The name changes could be a way of getting people to forget the past.

A corporate rebranding isn't going to alter the fact RBS is more than 60% owned by the state or that sports retail accounts for more than three quarters of Fraser's earnings.

As for Bovis, it previously ran into problems over its build quality, although at least current CEO Greg Fitzgerald has gone a long way to fixing these issues.

For larger companies like these, a change of name can feel like an insult to investors' intelligence, as if somehow a new name will wipe



away all of its past problems.

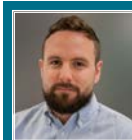
At least a quick Google search will likely reveal the truth about a renamed large cap's past.

More insidious are the small cap companies which run into trouble and change their name in an attempt to secure capital from new investors who haven't been burned before.

SEEKING A NEW IDENTITY

A name change can also seem like an attempt to pretend a business is something which it is not, such as Imperial Tobacco's decision to rebrand as **Imperial Brands (IMB)**. While the company is moving into areas like vaping, it's not like changing its name is going to make everyone forget it sells millions of cigarettes every year.

It certainly hasn't spared the company from a big sell-off as the sector faces a regulatory backlash. Since it adopted its new title in February 2016 Imperial Brands' shares have halved in value.



By **Tom Sieber** Deputy Editor

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As at end of December 2019

	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
Share Price	30.00	-3.67	30.22	-17.08	53.93
Benchmark	12.15	5.91	17.92	-14.96	28.95

Benchmark: FTSE All-Share (ex FTSE 100, ex Inv companies) (£). Source: J.P. Morgan Asset Management / Morningstar as at 31/12/19.

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We see potential in the overlooked and underloved



FIDELITY SPECIAL VALUES PLC

This investment trust seeks out good-quality but unpopular companies, whose long-term growth potential has been overlooked by the market.

Portfolio manager Alex Wright's contrarian approach to the trust thrives on volatile and uncertain markets, when there's more chance of stocks being misjudged and undervalued. Investing mainly in the UK, and supported by Fidelity's extensive research team, Alex looks to invest in out-of-favour companies, having spotted a potential trigger for positive change that he believes has been missed by others.

It's a consistent and disciplined approach that has worked well; the trust has outperformed the FTSE All Share Index over the

long term both since Alex took over in September 2012 and from launch 25 years ago.

Past performance is not a reliable indicator of future returns. The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand.

The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies and the securities are often less liquid.

PAST PERFORMANCE

	Nov 14 – Nov 15	Nov 15 – Nov 16	Nov 16 – Nov 17	Nov 17 – Nov 18	Nov 18 – Nov 19
Net Asset Value	12.0%	11.6%	17.2%	-3.8%	10.5%
Share Price	18.9%	8.9%	15.3%	4.4%	10.4%
FTSE All Share Total Return Index	0.6%	9.8%	13.4%	-1.5%	11.0%

Past performance is not a reliable indicator of future returns.

Source: Morningstar as at 30.11.2019, bid-bid, net income reinvested.

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Why the markets could be too complacent about the coronavirus

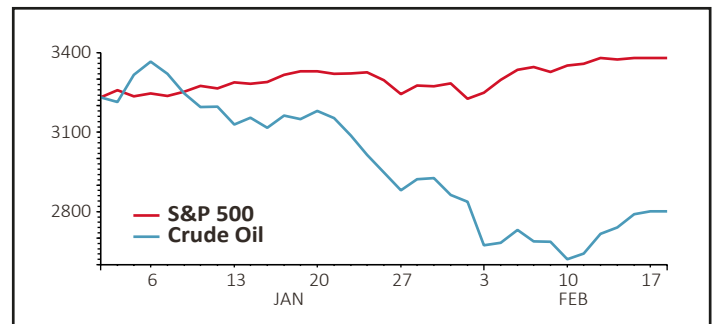
Apple warning on Chinese issues highlights the risks facing many businesses

The news from Apple that the coronavirus will hit sales of its iPhone should not have come as a surprise but has nonetheless provided a jolt to investors who had seemed quite relaxed about the outbreak.

There may now be increased attention on the impact on other firms. The management teams of companies with Chinese exposure, either through their manufacturing function or customer base, will face increased scrutiny over the issue.

Specifically it could be raised when consumer goods firm **Reckitt Benckiser (RB.)** and advertising giant **WPP (WPP)** report their full year numbers on 27 February. Reckitt has a significant sales footprint in China and WPP is often seen as a proxy for the global economy.

Apple said it is unlikely to meet quarterly revenue guidance of up to \$67bn as it admitted its worldwide iPhone supply will be 'temporarily constrained', with demand for products in China also down due to store closures because of



the virus.

It comes as an increasing number of market commentators have cautioned that investors are getting too complacent over the disruption coronavirus could cause to global supply chains.

Saxo Bank's head of equity strategy Peter Garnry said the 'alarm bells are ringing further and louder every day... that the market is becoming insane' having continued to rise despite 'worrying' comments from experts that coronavirus could infect 40% to 70% of the world's population in a worst-case scenario.

Instead of looking at company shares at the moment, Garnry added that he 'cannot emphasis enough' to look at commodities such as crude oil, iron ore and copper for real insight into the demand picture in China.

Before Apple's warning, the FTSE 100 had been in recovery mode and the likes of France's CAC 40 and Germany's DAX were hitting record highs, along with the Dow Jones, Nasdaq and S&P 500 in the US.

The UK small cap hit by Apple's news

THE APPLE WARNING also had a direct read-across to AIM-quoted semiconductor manufacturer **IQE (IQE:AIM)**, which counts Apple as a big customer.

Its shares plunged over 8% on 18 February to 56p as investors poured over the potential knock-on impact.

Analysts at Canaccord Genuity forecast that, depending on the duration and steepness of the hit to Apple, the potential earnings impact for IQE could be 'low to mid-single digit percentage revenue and around 5% to 20% adjusted EBIT downgrades'.

Dunelm's price looks too high given China risks

A high equity rating leaves the retailer's shares vulnerable to a big correction if there are problems stocking its stores

Shares in homewares market leader **Dunelm (DNLM)** have surged 148% higher since the start of 2019 thanks to a series of positive trading updates. Its latest half year results, published on 12 February, show the benefits of a recently-upgraded digital platform which has made it easier for customers to buy goods online.

The key challenge for investors is to decide if the stock has become too expensive or whether it actually deserves to trade on a premium rating. We can see a clear risk to its supply chain in the near-term and so the rating makes the stock vulnerable to a large share price correction upon the slightest bit of bad news.

In Dunelm's defence, it is clearly doing something well to enjoy strong earnings momentum. However, the valuation looks rich for a retail business with a large physical store estate. At £13.40, it is trading on 24.5 times forecast earnings for the year ending June 2020. In comparison, **Next (NXT)** trades on 15 times expected earnings for its financial year ending January 2021.

In the second half of 2019 Dunelm's like-for-like sales grew by 5.6% despite demanding comparatives and a soft homewares market, and gross margins improved thanks to sourcing gains and fewer markdowns.

Online sales grew 33% in the first half as Dunelm's

strong multi-channel business and click and collect proposition increased footfall to stores.

Admittedly the retailer's wares aren't everyday essentials, but a recent pick-up in the housing market with higher prices offers an earnings tailwind, since it indicates stronger activity in the property space. People moving home is a natural catalyst to buy new homeware items, such as those offered by Dunelm.

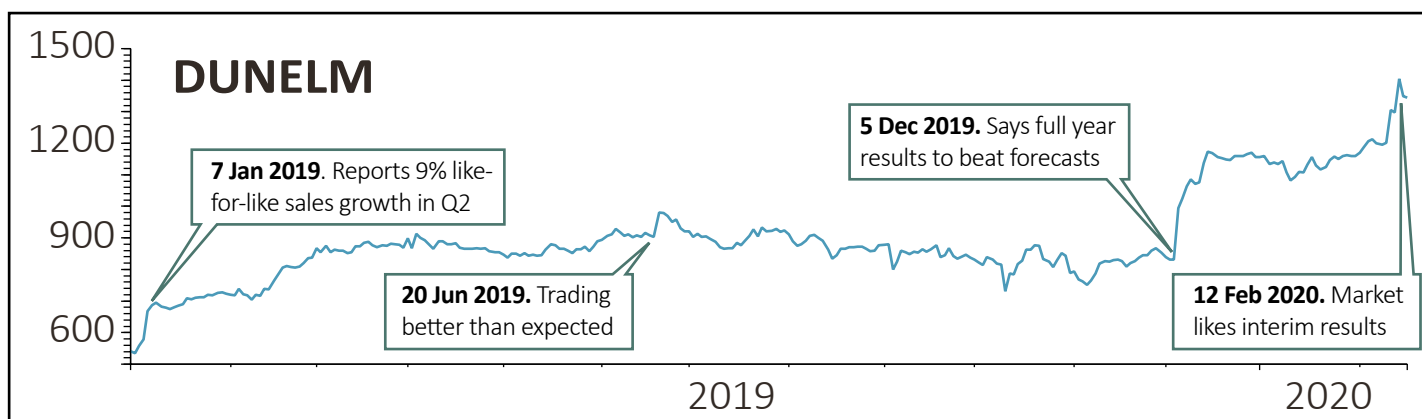
Broker Shore Capital insists Dunelm is 'starting to leverage its scale in a highly fragmented market from John Lewis and others given their recent travails', and broker Peel Hunt says the business has 'significant growth potential ahead'.

Risks to earnings forecasts include additional pressure on disposable incomes should the economy turn down, homeware category expansion by competitors and unseasonal weather.

But perhaps the biggest risk is China being locked down by the coronavirus and how that could disrupt supplies.

Investment bank UBS points out that 17% of Dunelm's goods are sourced directly from China. It therefore feels prudent to assume there will be some supply chain disruption and that the shares are priced too high to warrant buying.

We like the business and believe the best approach is to wait for any large pullback in the share price before buying.



Government review could put the brakes on rail operators' earnings

Changes are likely to impact quoted operators FirstGroup and Go-Ahead

In the next few weeks the Government is set to publish a review of the UK rail industry which is likely to recommend a major shake-up in the way trains are run and the way we pay for them.

The Williams Review, led by former British Airways boss Keith Williams, has been a year in the making and is expected to call for changes to both the current franchise model and the ticketing model, with implications for the rail operators and ticket sellers.

Under the current franchise system, train operators collect fares and pay a cut to the Treasury. As the franchise is effectively a monopoly, the operators are free to set prices to maximise profits.

The review is likely to suggest scrapping the franchise model and replacing it with fixed contracts whereby operators would receive a fixed fee from the Government, which would set the fares and 'run' the networks.

This not only takes pricing out of the hands of the operators, it gives Government control of the rail network at both mainline and local levels.

The review is also likely to recommend replacing the UK's over-complicated ticketing system with a 'single leg' pricing model where fares are charged on a per-journey basis.

A new Government body would award contracts, set fares and monitor the performance of the train operators and Network Rail. There are even hints that the review will suggest some stations be privatised.

A spokesman for **FirstGroup (FGP)** says: 'We await publication of the report and will work together with DfT and industry partners to implement its recommendations.

'Our focus will remain on delivering



improvements for customers from our current rail portfolio, including the introduction of additional services and longer, faster and more reliable trains with more seats.'

FirstGroup operates the Great Western Railway, which runs express services to Bath, Bristol and Cardiff, together with South Western Railway, Hull Trains and the TransPennine Express.

Meanwhile **Go-Ahead (GOG)** operates Govia Thameslink Railway, which extends from Brighton to Bedford and Cambridge and which accounted for 24% of all UK rail journeys last year according to the firm's website.

It also operates the Gatwick Express service and the SouthEastern franchise which is due to expire in April this year.

As well as the train operators, the review could pose a problem for **Trainline (TRN)** which makes money by comparing fares to save customers money and then charging a booking fee for ticket transactions.

Major cost-cutting fails to lift HSBC's shares

The bank has suffered a large drop in profit and outlined a large restructuring plan

Europe's largest bank **HSBC (HSBA)** has revealed plans to slash up to 15% of its workforce over the next three years after earnings more than halved in the year to 31 December.

Despite a 4% increase in revenue, net profits slid 53% to just \$6bn from \$12.6bn as the bank took a \$7.3bn write-down on its investment banking and commercial banking units in Europe and a \$2.8bn charge for bad loans.

Shares in the bank dived 6% to 555p making HSBC the worst performer in the FTSE 100 on the day of the news (18 Feb).

As part of its plan to increase returns the bank is taking capital away from the investment and commercial banking units, which interim chief executive Noel Quinn admitted are 'not delivering acceptable returns', and focusing on Asia where the bank continues to perform well.

As well as reducing capital it is cutting jobs, with the group headcount 'likely to go from 235,000 to closer to 200,000 over the next three years' according to Quinn.

Job cuts of this scale would normally drive up a



share price as the market tends to like cost cutting. However, investors appear to be focused on the potential economic impact of coronavirus in China and Hong Kong and how that raises the risk that HSBC's Asian business could struggle this year and the bank subsequently misses its targets.

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS

STOCK	SHARE PRICE RISE	REASON
Future	11.2%	Positive broker comment, recovery from short selling attack
Puretech Health	10.4%	Strong investor sentiment following \$200m sale of interest in affiliate
IP Group	9.8%	Market continues to react to healthy profit from sale of stake in Ceres Power

WORST PERFORMERS

STOCK	SHARE PRICE FALL	REASON
Centrica	-14.3%	Weak full year results marred by significant write-downs
Finabl	-13.4%	Association with the ongoing problems at NMC Health, given director links
GVC	-10.9%	Fears stakes for online gambling may be reduced

Source: Shares, SharePad. Data to 18 Feb 2020

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Buy Persimmon which yields 7% and is getting its house in order

The housebuilder has learned from its mistakes yet still trades at a discount to peers

We think housebuilder **Persimmon (PSN)** can close the valuation gap on its rivals as it repairs its reputation and improves its building practices amid robust conditions for the wider sector.

The housebuilding space has enjoyed good momentum since the December general election delivered a measure of political certainty arguably not seen since before the Brexit vote in June 2016.

Online property site **Rightmove (RMV)** recently signalled a bumper time for house prices this spring as pent up buyer demand comes through – this will coincide with the all-important selling season for the housebuilders acting as a further catalyst for share prices.

Persimmon may provide some colour on this when it reports full year numbers on 27 February and in a subsequent trading update scheduled for 29 April.

Based on Jefferies' forecasts Persimmon is on a 2020 yield of 7.3%, while Barratt Developments, a good point of comparison given its similar size, is on a yield of 5.5%.

The investment bank comments: 'We

PERSIMMON  **BUY**

(PSN) £32.15

Stop loss: £25.72

Market value: £10.4bn

believe it is not a stretch to argue that Persimmon with its higher returns and net cash should return to a lower dividend yield than Barratt and Taylor Wimpey as was the case in 2017.'

For Persimmon to trade on the same yield as Barratt it would need its share price to rise by more than 30% to approximately £43.

The reasons for Persimmon lagging behind in recent times is the construction and customer care issues which led to murmurings that it might lose its eligibility for the Help to Buy scheme which has been highly lucrative for the industry.

As it looked to address these problems, the company curbed the number of home

completions in 2019, with properties also sold later in the construction process.

Completions fell 4% to 15,855 leading to a 2.4% drop in revenue to £3.65bn.

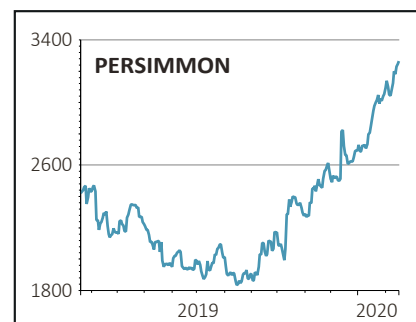
Solid foundations: Dividend is underpinned by £844m net cash position



The main risk to our positive stance on the shares is that the company's efforts to address these problems lead to significant sacrifices on its level of returns.

For now, Persimmon continues to generate higher margins than its rivals and has an exceptionally strong balance sheet, even by the standards of a sector which is awash with cash. The company has an £844m net cash position.

It also benefits from limited exposure to the south east where valuations are more stretched, with lower average sale prices than peers and a good track record of acquiring land at the right prices.





If you're a regular reader, you'll know that we often talk about dividends. That's because they can make a big difference to your long-term investments. In this article we go back to basics and explore the role of dividends.

Making dividends work for you

If you're a shareholder in a company, you may receive a dividend from that company's profits – as a reward for entrusting it with your capital. As with all investment trusts, The Scottish's main source of income used to pay dividends to its investors are the dividends received from its portfolio of holdings. You may not be aware that we deliver one of the highest dividend yields in the AIC Global peer group. This is important because, in conjunction with share price movements, dividend income forms a substantial part of an investor's total return.

Compounding occurs as dividends are used to buy more shares which, in turn, earn dividends on their own. These reinvested dividends would then gain or lose in line with the movement of the share price. For example, over 25 years to 31 December 2019, the share price of The Scottish increased by 297%. The share price plus dividends taken as cash would raise this to 431% over the same period and, if those dividends had been reinvested, the total return would have been 612% (all before any dealing expenses). It's important to remember, of course, that markets can be volatile and shares (and the income from them) can go down as well as up.

Why a contrarian approach can pay dividends

As we've demonstrated, dividends can play an integral part in the return on your investments over the long-term. We're pleased to say that we've increased our regular dividend for the last 36 consecutive years which makes us a 'dividend hero' according to the AIC. Though remember that dividends are not guaranteed and they can fall as well as rise.

In this context, how does our contrarian style come into play? It guides us to look for what we call 'ugly ducklings' – unfashionable and unpopular investments. The share price of such investments typically reflects their 'unloved' status, often written off by other investors. By contrast, we research these companies to ascertain if they are ripe for improvement. Has there been a change in their business model, or to senior management? Are there nascent opportunities in the markets in which they operate? If we believe we can see a change, and the company presents a credible plan for recovery, we'll consider investing. However, we also take a 'belt and braces' approach to our investment – which brings us back to dividends.

One of the things we may consider before investing in an 'unloved' company is if it has sufficient cash to pay dividends throughout its turnaround. As our approach is based on long-termism and patience, a sustainable dividend may make it easier for us to hold the stock while the business is recovering. A good example of this is our investment in Dutch telecoms group KPN. Deemed unexciting by many, we view the steadiness of this business as a virtue. It fits our 'unloved' criteria, because shrinking revenues have set investors' expectations low. The company has a credible plan to improve its fortunes. As we wait for positive development, we can enjoy the dividend – the belt to the braces.

“dividends can play an integral part in the return on your investments over the long-term”

What if the company doesn't pay a dividend?

If dividends are so useful, does that mean we'll shun companies that don't pay one? Not necessarily. When a company is putting its house in order, it might choose to stop paying a dividend, conserving its cash to allow it to improve the business (investing in new technology or changing its business model, for example). Indeed, this was the case with Tesco, which suspended its dividend before we invested. Tesco addressed areas of concern, made improvements to its business – then restarted its dividend. We see the reinstatement of a dividend as an important signal that a company's rehabilitation is underway. Another example is Royal Bank of Scotland, which was forced to cease dividends during the financial crisis. Similarly, the company restarted dividends when its financial position improved.

As you can see, dividends can tell us a lot about a company's health – and its future prospects. We always pay close attention to a company's dividends when we're considering investing – both its ability to pay them and its track record of doing so, because dividends can make a tangible difference to long-term investors. ■

6 January 2020

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Bargain entry point to access activist investor Dan Loeb

Third Point Offshore provides a way to benefit from the acumen of one of Wall Street's most famous names

A steep 20% discount to net asset value (NAV) at London-listed **Third Point Offshore Investors (TPOU)** offers an attractive entry point for those keen to access the money-making acumen of Wall Street luminary Dan Loeb, a famous activist investor.

We'll be upfront and say this investment is not for everyone. Accessing Loeb's investing skills means paying a premium – ongoing charges are a hefty 2.8%.

Returns can also be lumpy. In good years, Third Point could significantly outperform the market such as in 2013 when it delivered nearly twice the return of the MSCI World benchmark (46.9% versus 25% respectively, according to Morningstar).

In bad years, it could underperform and that's what you saw in 2018 and 2019. Taking a longer-term view, it has beaten the market with 13.9% annualised returns over the past 10 years versus 12.9% from the MSCI World benchmark.

The investment trust invests directly into Third Point Offshore, the flagship hedge fund of New York-headquartered Third Point, where Loeb serves as chief executive officer.

Loeb is known for sending

**THIRD POINT
OFFSHORE
INVESTORS** **BUY**
(TPOU) \$17.10
Stop loss: \$12.00
Market value: \$665m

aggressive letters to companies and proposing big changes, although more recently his investing campaigns have been less contentious, coming with a constructivist bent.

Third Point employs an event-driven, value-oriented investment style, with Loeb seeking to identify situations where a catalyst will unlock value and deliver attractive risk-adjusted returns for his investors. Current positions include electronics group Sony, food group Nestle and medical supply company Baxter.

Loeb believes that stock picking opportunities will be created by greater equity market volatility, increasingly caused by algorithmic and passive trading strategies.

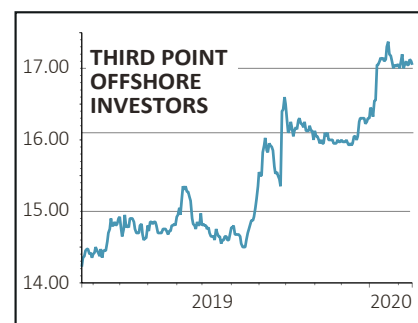
Although Third Point is best known as an activist investor, activism is just a part of this investment firm's arsenal. Its expertise spans everything from opportunistic credit to short



selling to identifying intrinsically mispriced value stocks.

Some of these techniques can be high risk and so investors should only consider buying the shares if they are comfortable with how short-selling works and that they understand betting against companies can cause big losses if Third Point gets it wrong.

Third Point is increasingly focused on generating and implementing more activist and constructivist ideas and beefing up the fund's exposure to these positions, while also using market sell-offs to snap up stakes in high-quality companies.



S & U

(SUS) £24.40

Gain to date: 9.9%

Original entry point:

Buy at £22.20, 30 May 2019

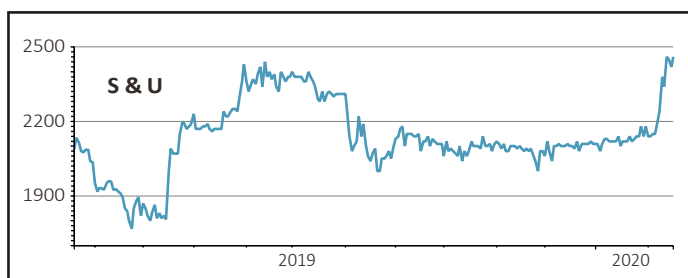
MOTOR FINANCE AND bridging loan provider **S & U (SUS)** delivered another positive trading update last week, confirming our view that the business is well placed to cash in on a recovery in the UK economy.

The volume of transactions has increased in both businesses since the general election in December with the result that, unlike many of its rivals in the used car market, S & U will meet earnings forecasts when it reports in March.

In contrast with the new car market, the used car market where it operates saw steady volumes last year while prices rose by over 6%. As vehicle manufacturers cut production of diesel cars, demand for nearly-new eco-friendly diesels continues to rise, pushing up used prices.

Meanwhile the Aspen property bridging business is 'making progress' according to chairman Anthony Coombs. Demand for new loans, typically for residential developments, is starting to pick up while the level of repayments has also improved which has helped group cash flow.

Despite slower profit growth, in line with company forecasts, the board approved an increase in the second interim dividend in a sign of confidence in the outlook for the group.



SHARES SAYS: ↗

S & U is a great way to play a UK recovery and we remain buyers.

CENTRICA

(CNA) 73p

Loss to date: 19.2%

Original entry point:

Buy at 90.42p, 19 December 2019



OUR VALUE-DRIVEN 'buy' call on energy firm **Centrica (CNA)** is off to an underpowered start thanks to a disappointing set of full year results (13 Feb).

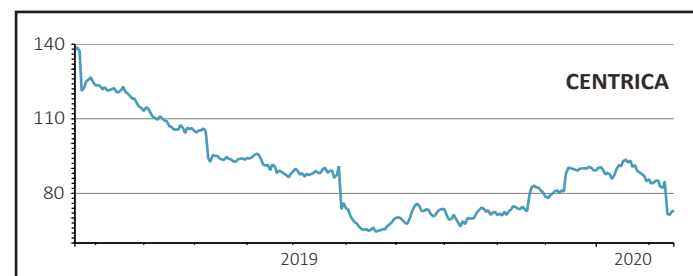
The company reported adjusted profit down 35% to £901m and was forced to book a £1.1bn one-off charge linked to falling commodity prices and issues in its nuclear business.

There is an argument that weak natural gas prices, the nuclear outages it experienced and the new caps on energy tariffs were arguably outside of management's control.

While operational issues might delay the disposal of its nuclear arm, the divestment of the 69% interest in oil and gas producer Spirit Energy remains on track with offers for the business expected around the end of the first quarter.

However, the sale price is likely to have been affected by the write-down and ongoing weakness in commodity markets.

On a brighter note the company is making progress with its core consumer energy arm, customer accounts were up 722,000 in 2019 and the company is ahead of target with planned cost savings.



SHARES SAYS: ↗

An undoubted blow, but as the business is reshaped we expect the market to respond to the value on offer. Be patient and aware of the risks to the investment case.

LUCECO

(LUCE) 123.8p

Gain to date: 6.7%**Original entry point:****Buy at 116p, 19 December 2019**

INVESTORS SEEM TO be taking a shoot first, ask questions later approach to electronics components and LEDs firm **Luceco (LUCE)** and any potential output problems from the shutdown of its factory in Jiaxing, China.

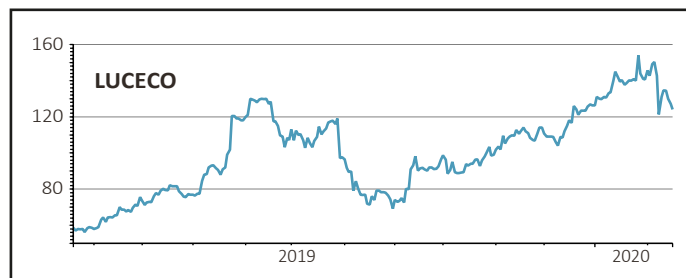
The site has been closed down for the past couple of weeks because of the coronavirus outbreak. Importantly, there have been no reported cases of coronavirus among Luceco's employees.

But after raising 2020 full year guidance at the end of January thanks to firming demand, investors are clearly concerned that those bumped up targets may now be missed.

As we went to press we had been unable to

confirm if, or when, the factory might reopen but as analysts at Liberum rightly point out any shortfall in volumes near-term can be made up for during the rest of the year at the cost of some modest overtime.

'Management note that there is no impact to current full year guidance,' says Liberum. Guidance for 2020 adjusted operating profit of between £20.5m and £21.5m.

**SHARES SAYS: ↗**

Short-term risks cannot be discounted but the powerful growth and margin improvement story remains intact. We will keep an eye on events in case of a more prolonged impact.

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REINVENTING BP

Is the FTSE 100 giant going to turn its back on oil and gas?



By **Tom Sieber**
Deputy Editor

Oil major **BP (BP.)** is the fourth largest company on the FTSE 100, representing 5% of the total market cap of the index. According to Link Market Services, BP and **Royal Dutch Shell (RDSB)** combined paid 20% of all dividends served up by UK-listed firms over the last decade. It is unsurprisingly a very popular holding in UK income funds owned by thousands of investors across the country.

Ultimately BP is one of the most significant companies on the UK stock market and investors should therefore take note of how the business might evolve in the coming years.

On 12 February it announced potentially the biggest shakeup in its 111-year history as it pledged to be net zero on its emissions by 2050. This news really matters as Link's chief operating officer Michael Kempe observes: 'Compared to other major countries, investors in UK equities are unusually reliant on oil to provide income on their shares.'

'As pressure builds on all firms to show environmental strategies, investors will be looking for clear direction, such as this announcement from BP's CEO and from all the oil majors regarding their plans to decarbonise their operations when they are making future investment decisions.'

BP's new chief executive Bernard Looney arguably had little choice but to lay down transformational plans given the growing clamour for the oil and gas industry to address its contribution to climate



BP's CEO Bernard Looney

change, not only from environmental campaigners but from institutional investors and politicians.

However, at this stage it is unclear whether BP's net zero plan is 'greenwashing', a phrase to describe addressing environmental concerns but not following up with real action, or a genuine commitment to change.

That question may be answered more fully when the company hosts an investor day in September but in this article we will discuss the potential implications of the net zero pledge, in particular what it might mean for the company's dividend, how the pledge might be achieved and where the company is starting from.

WHAT DOES IT ALL MEAN?

So what did BP mean when it said it wanted to be 'net zero' by 2050? In plain English it hopes to make no addition to the amount of greenhouse gases in the world's atmosphere through either its operations or the oil and gas it produces. It is also aiming to halve the carbon intensity of its products by the same date (or sooner).

The 'or sooner' bit may become increasingly relevant as BP could face pressure to move more quickly on this issue.

BP's pledge to cancel out the emissions from the oil and gas it produces is perhaps most eye-catching. In a Q&A session in front of campaigners, journalists and investors, Looney said the 'tools in the toolbox' for achieving this aim would include carbon capture, hydrogen and natural climate solutions.

Carbon capture and storage (CCS) involves trapping carbon in caverns or porous spaces underground and then transporting to locations where it can be stored or used.

A CASE OF DÉJÀ VU? REHASHING 'BEYOND PETROLEUM'

In July 2000 BP announced a PR campaign entitled 'Beyond Petroleum' ditching its traditional shield-based logo and replacing it with a new sunburst design.

Tangible investment in genuinely moving beyond oil and gas was subsequently limited. It fulfilled a 2005 pledge to spend \$8bn on renewables by 2013 but failed to set a new target and notably scrapped 'Alternative Energy' as a standalone business in 2009.

WHY SHOULD BP LEAD THE RENEWABLES CHARGE?



A biofuel field owned by BP's Tropical BioEnergia subsidiary

Given the toxic legacy of BP's fossil fuel assets, why should it, rather than a company unencumbered by such a legacy, be part of the transition towards renewables?

According to Nick Boyle, the founder of solar business Lightsource, the answer is that oil and gas companies have been powering the world for 100 years. BP recently increased its stake in Lightsource to 50%.

'Oil and gas companies have the experience of building large engineering projects in remote places, knowledge of the energy markets and huge trading capability as well as the necessary financial wherewithal,' he says.

Steve Wreford, portfolio manager of **Lazard Global Thematic (B241MZ1)**, also believes BP is a natural fit for the renewables space and doesn't believe its current structure will hinder efforts to transform into a business fit for the next generation.

'I look for companies with a solution to emissions rather than part of the problem,' he says. 'There are a select number of companies who can manage the transition from a world of fossil fuels to a world of renewables and emissions-light, which is about 20 to 25 years away. Some of them are renewable companies but not all of them.'

'We invest in BP which is busy rolling out its renewables platform. It still owns lots of oil fields but it can manage the transition.'

'People think of BP as an oil company but the life span of its proven reserves is 10 years. In other words, BP could be a totally different company by 2030 – it could be 'Beyond Petroleum' finally.'

Hydrogen refers to the use of a variety of technologies, including the electrolysis of water and chemical synthesis of natural gas, to produce hydrogen-based zero-emissions liquid fuel.

Natural climate solutions involve tapping into natural carbon sinks, including oceans, plants, forests, and soil; these remove greenhouse gases from the atmosphere and reduce their concentration in the air.

However, these approaches and technologies have not yet been proved up on any significant scale.

A January 2020 report from think-tank the Atlantic Council noted: 'The core argument held by many environmentalists against hydrogen and CCS is that they are too risky—meaning that continuing oil and gas production in the hopes that these and other future decarbonisation

RESTRUCTURING THE BUSINESS

For the first time in its history BP is abandoning the traditional upstream (oil and gas exploration and production) and downstream (refining and marketing operations) structure.

The new corporate structure splits the business into production and operations, customers and products, gas and low carbon energy, and innovation and engineering.

technologies will emerge could lead to a climate disaster should the technologies fail to materialise, and the population is consuming business-as-usual levels of oil and gas.'

WHICH FUNDS ARE MOST EXPOSED TO BP?

The table shows the funds and investment trusts with the most significant exposure to BP in their respective portfolios. According to data from FE Fundinfo, 246 funds out of an Investment Association universe of 4,051 have 1% or more of their portfolio in BP; 67 have an interest in excess of 5%. The FE data also shows 20 investment trusts with more than 1% of their portfolios in the oil company.



Funds with material exposure to BP

Fund	BP as proportion of portfolio
BlackRock GF World Energy	9.7%
MFS Meridian Global Energy	9.0%
Investec Global Energy	8.4%
SJP UK Income	8.2%
LF Majedie UK Income	8.0%
Scottish Widows UK Select Growth	8.0%
Jupiter Growth & Income	7.9%
Lazard UK Omega	7.8%
M&G Recovery	7.6%
UBS UK Equity Income	7.5%

Source: FE Analytics, 12 Feb 2020

Investment trusts with material exposure to BP

Fund	BP as proportion of portfolio
Edinburgh Investment Trust	6.4%
Schroder Income Growth	5.4%
JP Morgan Elect Managed Income	4.9%
BlackRock Energy & Resources Income	4.9%
Perpetual Growth & Income	4.8%
Temple Bar	4.3%
Value & Income	4.3%
Invesco Perpetual Select UK Equity	4.3%
Keystone IT	4.2%
Fidelity Special Values	3.5%

Source: FE Analytics, 12 Feb 2020

What are the implications of BP's plan?

LOONEY SAYS NOTHING to be announced in September will compromise the principles of growing cash flow and distributions to shareholders, maintaining a strong balance sheet through capital discipline, and driving down costs.

However, there are three main areas which will almost certainly be affected by a plan to realign BP on this scale and have a greater reliance on renewable energy.

1 Dividends

Investment bank Morgan Stanley characterises the situation facing the big oil and gas companies, including BP, as an 'impossible trinity' of investing to maintain oil and gas production, building out what it calls 'new energies' businesses, and maintaining their current substantial dividends.

Referencing this challenge Morgan Stanley says: 'In almost any scenario, this raises important uncertainties over the majors' long-term dividend capacity. If they transition too slowly, what will underpin their earnings when oil demand plateaus and eventually peaks? Can the majors find new businesses that can match the historical profitability of oil?

'On the other hand, if they transition too fast, will their new energies businesses be sufficiently profitable to underpin current dividends? So far, new energies returns appear a lot lower than oil and gas returns.

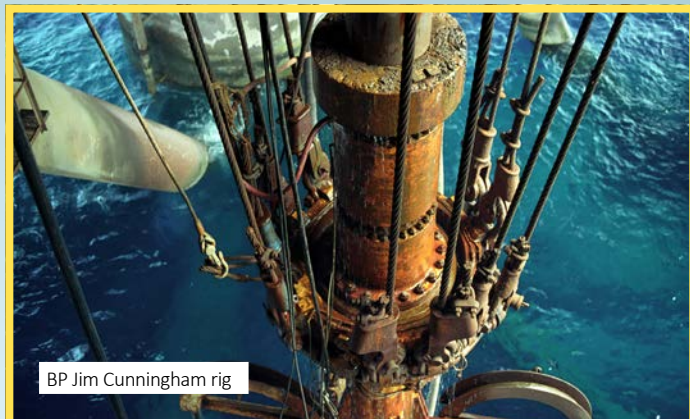
'Even if the majors transition at precisely the right pace, and the returns in new energies are indeed sufficient, it will take many years before this becomes clear. For the next several years, investors are simply faced with considerable uncertainty.'



BP windfarm Cedar Creek

2 Growth

Looney says BP may still be producing oil and gas in 2050, although probably less than it does now. In the wake of the Gulf of Mexico oil spill the company has already streamlined itself, divesting billions of dollars' worth of assets.



BP Jim Cunningham rig

The company has signalled it will focus on the highest quality barrels. In practice that will mean avoiding projects which involve more intensive work to get the oil and gas out of the ground. This includes assets in very deep water or oil which is particularly heavy or viscous as well as developments which involve dealing with high pressures and temperatures.

The company's main growth initiative in the last decade was the acquisition of shale assets from **BHP (BHP)**. This seems at odds with a 'highest quality barrels' approach given shale operations have a significant environmental footprint thanks to their land use and associated levels of water and air pollution.

3 Debt

BP is under pressure to reduce its borrowings. Gearing, which represents the ratio of net debt to total equity, hit 30.3% in the fourth quarter of 2019. Indebtedness has increased since 2018 as a result of the BHP deal.

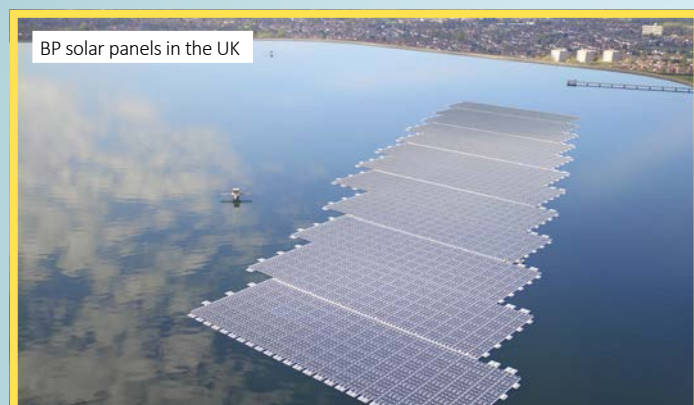
This gearing ratio is just above the company's 20% to 30% targeted range and was up from 27.4% a year earlier. The company plans to sell off more assets to get gearing down, yet investing in more capital intensive alternative energy assets could put the balance sheet under strain.

Should you buy or sell BP shares?

THE ANNOUNCEMENT OF the net zero plan is only likely to ramp up the pressure on the business and this could be damaging to the share price.

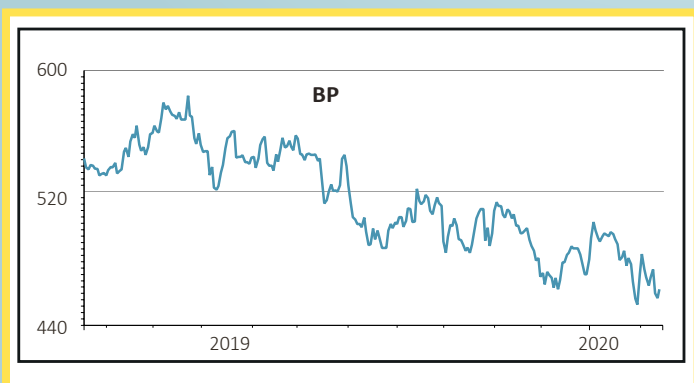
Recent pressure on oil prices linked to the coronavirus outbreak is another headwind. Income is the main attraction of the stock – the company has a 6.8% prospective dividend yield based on consensus forecasts – and we do think it's unlikely that the dividend will be cut in the foreseeable future.

However, this has to be balanced against the risk of further capital losses. September, when the company's investor day should provide more meat on the bones of these new targets, looks like a potential negative catalyst.



What could happen? Either the company won't go far enough to appease shareholders who want it to take decisive action on climate change or it goes too far and alienates investors who prize a dividend underpinned by cash flow from its oil and gas related businesses.

There are just too many unknowns and headwinds to warrant owning the shares now. Existing shareholders should sell and prospective investors should look elsewhere for opportunities.



WHAT DO THE EXPERTS THINK?

One fund manager who wished to remain anonymous and who attended Looney's presentation of the net zero plan told *Shares* that the BP boss 'walked a fine tightrope' but reckons he carried it off. They note the retail investor perception that fossil fuels are bad therefore BP should get rid of them but point out this would just pass the problem to someone else and it would still be a problem for society.

Consultancy Lux Research's Holly Havel says BP's announcement references methane detection and low carbon investments, but highlights that BP's broader decarbonisation strategy is centered around completely restructuring the organisation. 'BP has struggled to reinvent itself in the past but may find more success as the industry reaches a turning point in the evolving energy transition.'

Berenberg analysts Henry Tarr and Ilkin Karimli see a risk from the whole oil and gas sector investing in this transition at once. 'With substantial regulatory and technological uncertainty, not to mention increasing competition, it remains to be seen how fast and successfully such a transition can be made. We have already seen that crowding of industry investment into "growth" areas can drive overcapacity and weak returns (eg in gas and petrochemicals), although industry players will hope that such overcapacity is cyclical in nature and eventually reverts back to healthier levels.'



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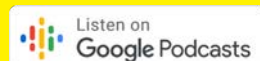
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Why JD Sports Fashion can sustain its winning run

The sports fashion brands seller has a winning formula and plenty of global growth to shoot for

Sentiment towards the UK retail sector remains largely negative, not helped by a number of post-Christmas profit warnings, yet **JD Sports Fashion (JD.)** continues to stand out from the crowd. The sports fashion and outdoor brands retailer is one of the UK retail sector's all-time success stories and ranks amongst the best total return performers over *Shares'* two-decade-long-plus history.

Despite a premium valuation we remain bullish on JD Sports Fashion. It is a rare retail structural growth winner with a formidable track record, strong relationships with key suppliers and a huge global growth opportunity ahead.

HOW JD HAS DEFIED THE RETAIL DOOM AND GLOOM?

Guided by gruff sporting brands supremo and executive chairman Peter Cowgill, recent years have seen JD Sports Fashion defy the wider UK retail industry doom and gloom.

Despite a myriad of challenges facing bricks and mortar retailing, the Bury-headquartered group has continued to deliver strong like-for-like growth and consistent earnings upgrades over the past five to 10 years thanks to its knowing its audience inside out and serving it effectively both online and



in store.

At the same time, it has maintained its attractive gross margins thanks to markdown discipline, no easy feat in the increasingly promotional branded fashion retail sector.

Analysts and fund managers are consistently wowed by the sustained like-for-like growth in the core sports fashion business. Again, this is some achievement as JD Sports' tough comparatives meet the law of large numbers, driven by the successful riding of a so-called 'athleisure' boom among youthful gym-goers and fashion-savvy consumers.

More recently, the business has benefited from something of a consumer flight to quality; the volume of stuff people are buying has reduced, but they are prioritising spending on

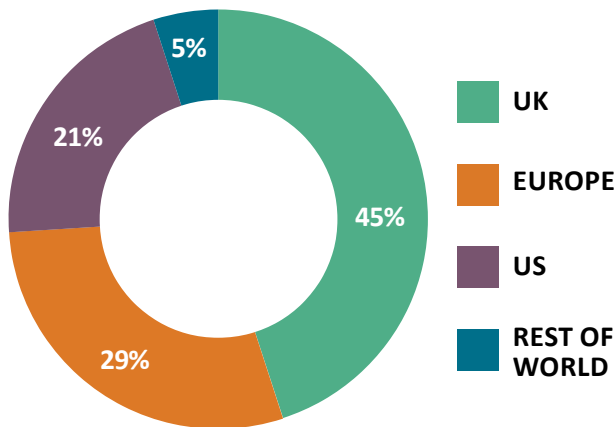
aspirational items such as those must-have trainers.

WHY EARNINGS ARE SPRINTING AHEAD

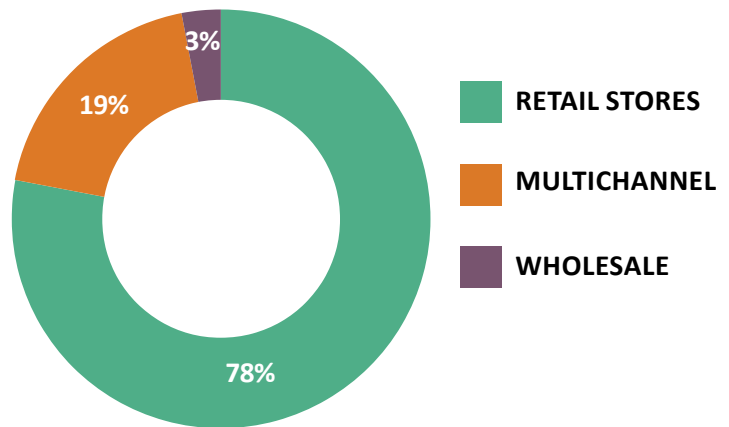
Through its JD Sports chain – strapline 'Undisputed King of Trainers' – the company sells branded sports and casual wear, combining globally recognised brands such as Nike, Adidas, Puma and The North Face with own brand labels including Pink Soda and Supply & Demand.

The £8.5bn cap lures fashion-savvy shoppers in with everything from sought-after trainers, jackets, track pants and football shirts to hoodies, leggings and sports bras, all merchandised within vibrant shops that create 'retail theatre' and deploy digital technology to keep those tills ringing.

GROUP REVENUE BY GEOGRAPHICAL MARKET



GROUP REVENUE BY CHANNEL



Source: JD Sports Fashion, February 2019 financial year

Amid a wider retail malaise, JD Sports, which operates a complementary gyms business and sponsors brand-boosting big time boxing bouts, is thriving by offering shoppers something different.

AND JD'S GOING GLOBAL

JD Sports also owns outdoor retail brands including Go Outdoors, Blacks and Millets. But its promotion into the FTSE 100 ranks for the first time in 2019 was primarily a reward for the successful transfer of the JD DNA into global markets.

JD has successfully exported

its brand organically and by acquisition to Europe, Asia and Australia. The model has proved particularly potent in Europe, where sales densities are 'eye-catching', to quote broker Peel Hunt, and like-for-like growth has constantly been in the teens and higher.

2018 saw JD Sports complete the acquisition of The Finish Line, a potentially significant move providing a platform for growth in the US, the world's largest athleisure market, and increasing JD's strategic importance to major global brand partners, principally Nike and Adidas.

In addition to store refits, the retailer is bringing its best practice to Finish Line stores and simultaneously opening a number of flagship JD stores in big US cities. The latter move will bring the chain into the consciousness of the strong US consumer. In an in-depth November research note, Peel Hunt reckoned that in five years time, there will be about 200 JD stores and around 300 Finish Lines across the Atlantic.

Encouragingly, The Finish Line is being successfully turned around, outperforming US peers such as Foot Locker, and margin expansion represents a tailwind to group-level earnings going forwards.

WORTH FRETTER OVER FOOTASYLUM?

In a setback for JD management, the UK Competition and Markets Authority (CMA) reckons shoppers could lose out following the takeover of smaller sports fashion rival Footasylum and is moving to block the deal.

A sale looks to be the only move available for Cowgill at



this stage, although investors shouldn't be unduly concerned, because Footasylum is a very small part of the wider JD machine.

Cowgill issued a punchy rebuttal of the CMA's findings nevertheless, claiming its decision demonstrates 'a complete misunderstanding of our market to an alarming extent' and insisting a combination with Footasylum would provide 'significant long-term benefits to customers, colleagues and brand partners'.

Speaking to *Shares*, Shore Capital retail expert Greg Lawless explained that Nike has come off Amazon and is going direct to consumer (DTC) in a bid to control its brand and retain margin, while German rival Adidas has launched a new flagship showroom on Oxford Street; this outlet sells very little product but it is essentially a showroom designed to showcase the brand.

This trend towards DTC has implications for JD Sports Fashion, which has built its success on close ties with these and other powerhouse sportswear brands. 'DTC is a threat to JD,' said Lawless, but



Sports Direct owner Frasers will try to keep JD Sports on its toes

he also stressed that 'these global brands need distributors and the JD brand is on fire at the moment'.

Lawless also believes 'the Finish Line opportunity is pretty transformational', pointing out that 'Nike welcomed JD buying Finish Line. They can sweat the assets better and that is good news for Nike.'

OTHER RISKS TO WEIGH

There are other risks to weigh up. They include the competitive threat from maverick Newcastle United owner Mike Ashley, whose **Frasers (FRAS)** empire (owner of Sports Direct) will try to keep JD Sports on its toes.

Under a so-called 'elevation

strategy', Frasers is shifting to more premium, higher price-point, higher margin products, although given its legacy as a discounter, Sports Direct still doesn't have the same access to the aspirational brands that undisputed sector champion JD Sports Fashion does.

Additional risk factors include the possibility that store like-for-like growth slows or turns negative in the UK. If JD cannot offset this with savings on rent, then profitability in its core market could be eroded.

The Finish Line business looks in increasingly fine fettle. Yet major acquisitions can destroy value and the US has historically proved a tough nut for UK retailers to crack.

Even if it looks highly promising thus far, problems with the integration of The Finish Line could absorb more cost and capital expenditure than JD Sports Fashion's best-in-class management originally counted on.

YET ANOTHER UPGRADE

Accompanying JD Sports Fashion's response to the CMA decision was yet another





JD SPORTS IS SPRINTING AHEAD

Year to January	Adj. pre-tax profit (£m)	EPS (p)	DPS (p)	PE
2019 (A)	346	27.7	1.7	31.4
2020 (E)	430	34.3	1.8	25.4
2021 (E)	455	36.9	1.9	23.5
2022 (E)	495	40.1	2.0	21.7

Source: Company accounts, Peel Hunt estimates. Based on 870p share price / £8.45bn market cap

earnings upgrade. The retailer said it now expects full year 2020 to be 'at least equal' to the top end of current market expectations of £434m thanks to strong Christmas and January trading in both the UK and internationally.

Peel Hunt upgraded its year to January 2020 pre-tax profit forecast from £420m to £430m

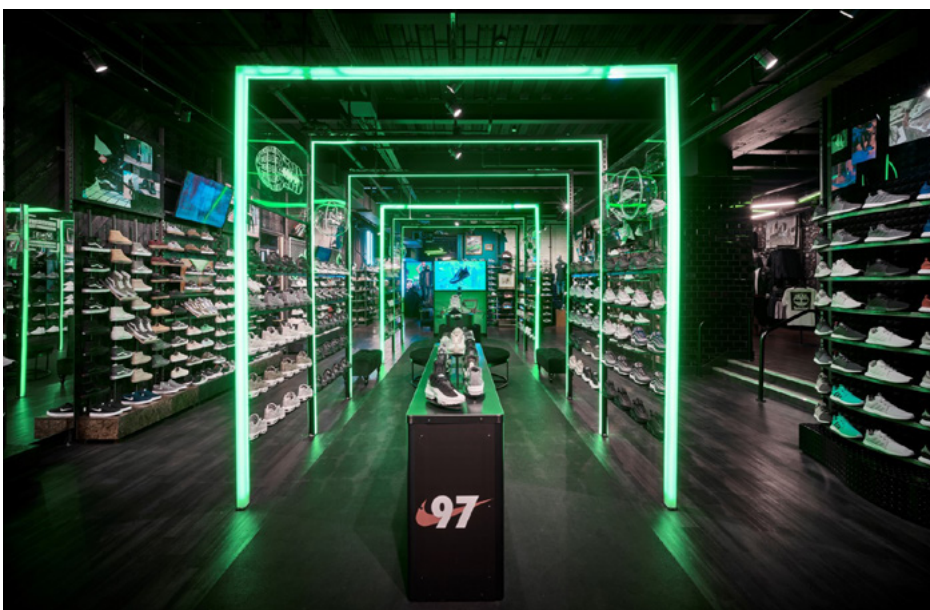
and its earnings estimate from 33.5p to 34.3p.

As the table above shows, based on these estimates, JD Sports Fashion trades on a premium PE valuation.

However, it is worth noting that could be further upgrades when JD Sports Fashion sprints in with its annual numbers on 15 April.

Strongly cash-generative, the progressive dividend payer was sat on £118.1m of net cash at the 3 August half-year balance sheet date. This strong financial position will enable the company to invest in sustainable competitive advantage, fund the growth of the core business and scout for further compelling strategic acquisitions.

We agree with Peel Hunt that Footasylum is a small issue and the upgrade to consensus is far more fundamental. JD continues to carry all before it and the progress globally is impressive. 'The shares are no longer eye-catchingly cheap but they are very good value and should be a core holding for all growth funds,' the broker concludes.



By James Crux
Funds and Investment
Trusts Editor



New to investing: the difference in risk between cash, bonds and shares

Understanding how you might be able to hit certain investment goals

You don't need a lot of money to start investing. What's more important is to start as early as possible. We'll show you why in this article.

So far in [our first-time investor series](#) we've explained the types of returns you can get on both saving in cash and investing your money. We also explained how making regular contributions can really work magic over time.

The next step is to consider how you going to afford to put money aside for investing. To illustrate the point, let's look at two different people and how they might be able to juggle their finances so there is money available each payday to invest.

Sam, an engineering graduate has just secured himself a job at a big engineering firm and one day wants to go to into space. He is ambitious and plans to move up the corporate ladder but he is also keen to secure his financial security and starts contributing to his pension straight away. He can afford to invest £1,000 a year

which works out at just over £83 a month.

Julie is at catering college and hopes to fulfil her dreams by following in the footsteps of her mother and becoming a Michelin-starred chef. She is living at home and can afford to save £40 a month but decides that is too small to make a difference. 'I will start saving seriously when I get a well-paid job,' she says.

She decides to wait and 10 years later tries to make up for lost time by putting aside £2,000 a year.

The accompanying table shows how much they've both invested and made over 20 years. To be conservative we have assumed that both Sam and Julie achieve annual growth in their investments of 5% a year, below the long-term average return of



7.3% a year for UK stocks and shares. This is for illustrative purposes only. Actual returns will be much more variable and sometimes negative.

The first thing that jumps out from the tables is that Sam's investment pot is 31% bigger than Julie's, giving him an extra £8,305. Notice that both invested the same £20,000. This demonstrates the power of compounding as we discussed in our first article.

If Sam had aimed to make the same amount as Julie (£26,414) he could have reduced his annual contributions to around £760, giving him more disposable income.

We can't emphasise this enough – starting early, even if in a small way, is much more effective and cheaper than waiting until you are older



FIRST TIME INVESTORS: SAM & JULIE

	Start Capital £m		Contribution £m		Return %	End Capital £m	
Year	Sam	Julie	Sam	Julie	Sam & Julie	Sam	Julie
Year 1			1,000		5.0%	1,050	
Year 2	1,050	-	1,000	-	5.0%	2,153	-
Year 3	2,153	-	1,000	-	5.0%	3,310	-
Year 4	3,310	-	1,000	-	5.0%	4,526	-
Year 5	4,526	-	1,000	-	5.0%	5,802	-
Year 6	5,802	-	1,000	-	5.0%	7,142	-
Year 7	7,142	-	1,000	-	5.0%	8,549	-
Year 8	8,549	-	1,000	-	5.0%	10,027	-
Year 9	10,027	-	1,000	-	5.0%	11,578	-
Year 10	11,578	-	1,000	-	5.0%	13,207	-
Year 11	13,207	-	1,000	2,000	5.0%	14,917	2,100
Year 12	14,917	2,100	1,000	2,000	5.0%	16,713	4,305
Year 13	16,713	4,305	1,000	2,000	5.0%	18,599	6,620
Year 14	18,599	6,620	1,000	2,000	5.0%	20,579	9,051
Year 15	20,579	9,051	1,000	2,000	5.0%	22,657	11,604
Year 16	22,657	11,604	1,000	2,000	5.0%	24,840	14,284
Year 17	24,840	14,284	1,000	2,000	5.0%	27,132	17,098
Year 18	27,132	17,098	1,000	2,000	5.0%	29,539	20,053
Year 19	29,539	20,053	1,000	2,000	5.0%	32,066	23,156
Year 20	32,066	23,156	1,000	2,000	5.0%	34,719	26,414

Amount Invested

Sam

£20,000

Julie

£20,000

Source: Shares, figures rounded to nearest whole number. Indicative example, does not include fees.

and perhaps earning more.

WOULD YOU PREFER BUNGEE JUMPING OR A CUP OF COCOA?

Investing is not about putting your money into any stock or fund in the hope of getting the best returns. You need to pick your investments wisely and also consider how you might feel about losing money if some investments go wrong.

If you can't bear the thought of losing a chunk of your money, it might suggest

that you don't have a large appetite for risk. Therefore you would need to consider only investing in lower-risk assets which might mean you don't reach your financial goals or you perhaps need to increase your future investment contributions.

It all comes down to making a plan that suits your temperament and lifestyle while giving you the best chance of staying the course and not panicking or swerving off course.

Read on and we'll give you some examples of higher and

lower risk investments.

It's worth thinking about different investment types as being rungs on a ladder. At the bottom end of the ladder is the lowest risk investment. The risks increase as you climb the ladder. Shares are near the top.

The position of funds on the risk ladder depends on what's inside their portfolio. An 'equity' fund will contain shares and potentially a very small allocation to cash or bonds. A multi-asset fund will have a mixture of shares, bonds and cash and

potentially some commodities and property exposure.

HIGHER RISK

Investing all your money in shares is considered an 'aggressive' stance and is only suitable for younger people who have a very long investment horizon. It also requires a strong stomach and the fortitude to handle tough times when the value of your portfolio falls.

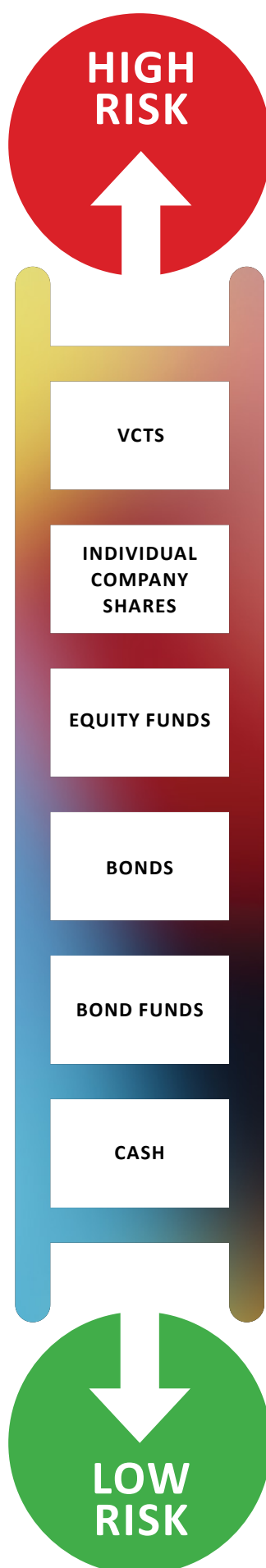
Although the long-term return from UK shares has averaged 7.3% a year, along the way there have been some prolonged periods of negative returns. These are often called bear markets and on average they have lasted 14 months and delivered negative returns of 33%.

Counter-intuitive as it may sound, the stock market would need rise by 50% to recover losses of 33%, which means if you invested near the prior peak, your portfolio could be 'under water' for an extended time. This is why it is advisable to invest for a minimum of five years and preferably longer.

If you are the type to get anxious and lose sleep after reading about coronavirus headlines hitting the value of your investments, you might be better off with a portfolio that moves around less and is more stable.

LOW (OR NO) RISK

The easiest way to achieve more stable returns is to stay in cash. Cash deposits at UK banks are protected up to £85,000 per institution by the Financial Services



Compensation Scheme, so effectively any cash you hold this way is guaranteed.

However, the downside is the low interest rates on offer, which are often below the rate of inflation, which means that the purchasing power of your cash falls over time. It's unlikely that a saving pots entirely in cash will meet your long-term financial goals.

MEDIUM RISK

Another way of reducing variability but getting a better return than cash is to put some money into fixed interest investments, sometimes called bonds. This type of investment has historically returned more than cash but less than shares.

A bond is like an 'IOU' – a government or company borrows money from an investor by issuing bonds in exchange for cash. They then pay a fixed amount of interest over a specific time period; at maturity the investor cashes in the bond for its original face value (also known as 'par').

You often see people discuss bonds in terms of their yields. This can be confusing given that stocks are discussed in terms of share prices. You just need to understand that bond yields move in the opposite direction to the price. So when someone says a bond's yield is falling, the price is actually rising.

Bonds are also good to put into a portfolio because historically they tend to do well when equities fall, because they are

considered safer. Also the Bank of England tends to reduce interest rates during economic contractions, which increases bond prices. Having some bonds in your portfolio therefore adds some stability.

GETTING THE RIGHT MIX FOR YOU

For most people, having a mix of stocks, bonds and cash is a sensible way to invest for the long-term.

The precise mix will always depend on your individual financial circumstances, age and temperament, but the principles laid out here should help you create a useful framework.

We'll look at asset allocation – another term to describe the mix of stuff in your portfolio – in more detail later on in this education series.

HOW MUCH DO I NEED TO INVEST?

Now you've got an idea about the different levels of risk attached to cash, bonds and shares, it's time to think about some goals, i.e. how much would you like to make from investing or think you will need at a certain point in the future?

People are notoriously bad at thinking about how they will feel about some event a long way into the future, but it pays to give it serious consideration. The calculation is made doubly-hard by the fact that we need to adjust numbers for inflation.

For example, your council

tax goes up every year due to the effects of inflation and therefore you need to factor this increase into your future spending needs.

To illustrate, let's say inflation averages 2% for the next 30 years. After 30 years your £2,000 annual council tax bill will be 81% higher at £3,622.

In the same way, if you had targeted living off a pension generating £30,000 a year in 30 years' time, that is equivalent to £54,340 in today's money.

Don't forget your state pension which currently pays £8,767 a year and fortunately it will rise by 2.5%, the rate of inflation or average earnings growth, whichever is largest. If we assume 2.5% annual increase, the state pension should pay out £15,880 a year in 30 years' time.

If we reduce our pension pot return target by the assumed inflation-adjusted state pension figure (£54,340-£15,880), we arrive at a target annual income goal of £38,460 in real inflation-adjusted terms.

THINK ABOUT LONGEVITY

We can now figure out the size of the investment pot needed to generate the desired level of annual income. But for how long do we need this income? As morbid as it sounds, we first we need to estimate life expectancy.

According to the Office for National Statistics, a 30-year-old woman is expected to live for 84 years and a man for 80 years. The future retirement age will probably creep

higher as pressures on the pension system build from an ageing population. Assuming that both sexes retire at 67, the pension would need to last from between 13 and 17 years.

Nobody wants to run out of money, so to be cautious we have assumed that a 30-year-old today will need to fund 24 years of income in retirement. Even this might not be conservative enough.

To fund the annual spend of £38,460 and not run out of cash for 24 years would require an investment pot of £572,000. To reach this target requires a monthly investment of £683. That may be beyond a lot of people's means so just save as much as you can.

A rough rule of thumb for estimating the size of pension pot you need is to multiply your required annual income by 15.

Expending a little effort to make a financial plan suited to your circumstances and risk appetite can pay off over the long haul.

NEXT TIME IN OUR FIRST-TIME INVESTOR SERIES

- Should I run my own investment account or get someone else to do it?
- Choosing an ISA or SIPP provider
- How to open an account and make an investment

INVESTING IN THE UK: BEYOND THE FTSE 100

Guy Anderson, lead investment manager for The Mercantile Investment Trust, explains the benefits of investing in mid and small cap UK companies and the thinking behind some of the trust's more interesting holdings.

The case for UK mid and small caps

After a year of political convulsions brought on by Brexit, 2020 promises greater stability following Boris Johnson's decisive general election victory back in December. With Brexit uncertainty abating, at least in the short term, sentiment towards the UK stock market is improving. For investors focused on the long term, the outlook for UK mid and small cap companies looks particularly positive. Allow me to explain why.

The uncertain state of British politics may have affected all UK share valuations in recent years, but the intrinsic value of the best stocks has remained strong. These quality companies with strong fundamentals have been resilient through the turmoil, leaving them well positioned to thrive now that the political landscape looks to be settling down.

Some of the most attractive opportunities can be found in the mid and small cap areas of the UK market. Mid and small cap stocks provide the opportunity to diversify beyond the typical holdings in a FTSE 100-focused fund, while allowing investors to access the stronger growth potential of firms that are at an earlier stage of their development trajectory.

Over the last 60 years, mid and small cap stocks in aggregate have outperformed the overall market in two out of every three years. The cumulative performance of mid and small caps has also been strong, even through bumpy periods*.

Sectors and companies to watch

While ongoing uncertainty around Brexit has had an impact on UK equity valuations, the strongest firms across a range of sectors could be set to benefit as soon as the fog has lifted. As our choice of sectors and stocks determines the relative performance that we are able to deliver for investors, it's worth taking a closer look at some of our holdings.



1. Software and computing

Information technology (IT) comprises the strongest sub-sector position within the trust's holdings, a situation that is likely to continue since the best IT firms offer huge potential over the long term.

Specialised software company AVEVA Group plc is a global leader in its field and stands ready to benefit from the so-called "fourth industrial revolution". Working across industries as diverse as mining, utilities and biotechnology, AVEVA provides solutions to optimise business efficiency, from planning and procurement to operations.

Softcat is another IT business in which the trust has an overweight position. The company provides infrastructure, digital workspace, cybersecurity and IT efficiency solutions to well-known names, including Virgin Money and Nuffield Health. A FTSE 250 company, Softcat has enjoyed strong ongoing growth and hit the £1 billion revenue milestone in 2018.

2. Property and construction

Although UK housing sales volumes have experienced a prolonged downturn, prices and demand have remained relatively healthy in several regions outside of the traditionally overheated London market, including in Yorkshire, the Humber and Scotland.

The trust continues to be substantially overweight in Bellway, a FTSE 250 company with a 70-year trajectory from family business to one of the UK's biggest house builders. The firm sold more than 10,000 homes in 2018 in hotspots from Bristol to Scotland, with a return on capital employed of 27.2%.¹

3. Retail

The febrile political backdrop of 2019 dented consumer confidence, which lagged last year behind the increase in disposable income. However, while the media may be focused on struggling traditional high street retailers, behind the headlines there are businesses exploiting sub-sectors with plenty of room for growth.

These include the discount store owner B&M European Value Retail, which has grown to a chain of nearly 600 shops in the UK with minimal spending on advertising and an aggressive pricing policy. B&M purchased French retailer Babou in October

2018, establishing a position in the three strongest European markets.

Fantasy game business Games Workshop Group PLC may seem like a leftfield choice, but its suitability as an investment is firmly based in reality. Both a manufacturer and a retailer, the company is a global leader in its niche market.

Finally, also worth mentioning is SSP Group plc. Billing themselves as the “food travel experts”, the firm specialises in running food outlets in travel locations, such as airports and major stations. SSP’s global operations mean that it is well placed to continue to benefit from the ongoing growth of international travel, with more than 2,600 outlets in 33 countries worldwide.

Why Mercantile?

The Mercantile Investment Trust plc is built around a rigorous investment process, which seeks to identify businesses that either have leading positions in growing end markets, or that are well placed to disrupt incumbents or make an early move into new markets. Our specialist investment team then focuses

on three key areas:

- **Quality:** Profitability, sustainability of earnings and capital allocation discipline
- **Outlook:** Growth potential and operational momentum
- **Value:** Future prospects relative to market estimates

Our careful active selection of sectors and stocks has allowed The Mercantile Investment Trust plc to outperform its benchmark over three, five, ten and 25 years.

While income is not a primary focus, a strong secondary objective is to grow dividends at least in line with inflation. Since the turn of the millennium, dividends have increased six-fold and have never been cut. Over the last five years, the trust has grown its dividend at a 10% annual growth rate, and by 5% per annum over the last ten years, providing an income that has grown well ahead of the rate of inflation.**

For more information visit jpmorgan.co.uk/MRC

Important information

The Mercantile Investment Trust plc
Quarterly rolling 12 months - as of 31/12/2019

	2014/15	2015/16	2016/17	2017/18	2018/19
Share price	30.00	-3.67	30.22	-17.08	53.93
NAV	23.14	-3.25	29.95	-15.70	40.36
Benchmark	12.15	5.91	17.92	-14.96	28.95

Past performance is not a guide to current and future performance. Source: J.P. Morgan Asset Management/ Morningstar. Net asset value performance data has been calculated on a NAV to NAV basis, including ongoing charges and any applicable fees, with any income reinvested, in GBP.

The Mercantile Investment Trust plc may utilise gearing (borrowing) which will exaggerate market movements both up and down. The Mercantile Investment Trust plc may also invest in smaller companies which may increase its risk profile. Companies listed on AIM tend to be smaller and early stage companies and may carry greater risks than an investment in a company with a full listing on the London Stock Exchange.

This is a marketing communication. It should be noted that the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Past performance is not a reliable indicator of current and future results. There is no guarantee that any forecast made will come to pass. Investment is subject to documentation. The Investor Disclosure Document, Key Features and Terms and Conditions and Key Information Document can be obtained free of charge from JPMorgan Funds Limited or www.jpmmam.co.uk/investmenttrust. Our EMEA Privacy Policy is available at www.jpmorgan.com/emea-privacy-policy. This communication is issued by JPMorgan Asset Management (UK) Limited, which is authorised and regulated in the UK by the Financial Conduct Authority. 0903c02a8280edb0

¹Source: Bellway Annual Report 2018 P2.

*Source: J.P. Morgan Asset Management, Reuters Datastream. All series are rebased to 100 from 31 December 1993 to 31 December 2019. All indices in GBP and include reinvested dividends. Indices do not include fees or operating expenses and are not available for actual investment. Past performance is not a reliable indicator of current and future results.

**Source: J.P. Morgan Asset Management. All figures based on the current trust total shares, after the 10 for 1 stock split in mid 2018. Data as of 31 December 2019. Past performance is not a reliable indicator of current and future results.

How to spot if your funds offer value for money

Assessment of value reports will still leave investors with work to do

New 'value for money' data is emerging that could make selecting funds easier for investors.

Since 30 September 2019, fund managers have been forced to start publishing 'assessment of value' (AoV) reports under a new UK regulatory crackdown. These documents are designed to illustrate each fund's quality of service, performance, costs, and how well they're doing against their competitors in a jargon-free way that is easy to understand for the average investor.

The investment fund industry currently manages around £1trn for individual investors, and a further £3trn on behalf of people's pensions.

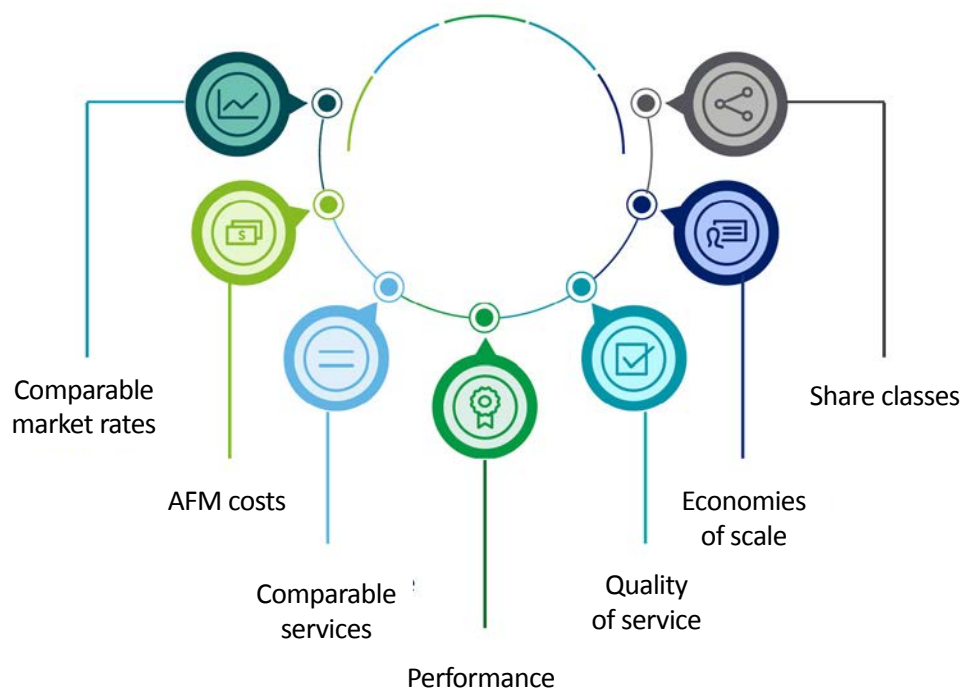
In an FCA investigation in 2017 that looked into the funds industry, the financial watchdog was scathing about how the whole sector operates.

'We found that asset management products and services are complicated, objectives may not be clear, fees may not be transparent and investors often do not appear to prioritise value for money effectively,' the study said.

WIN FOR THE ORDINARY INVESTORS

The new rules will be hailed by many as a victory for the legion of retail investors in the battle to level the funds playing field with

THE FCA'S ASSESSMENT OF VALUE CRITERIA



Source: Deloitte

powerful financial institutions.

In a study early last year the European Securities and Markets Authority, an independent body that safeguards the EU's financial system, found that retail investors can pay up to twice as much in fund fees compared to institutional investors.

'The criteria set out by the FCA are closely intertwined and essentially filter down to three elements; cost, performance against peers and quality of service,' said Deloitte, the audit, accountancy and financial consultancy firm.

'Where a fund is not providing overall value, firms will need to take prompt and meaningful actions as this part of the published statement is likely to receive the most scrutiny from regulators and investors.'

With AoVs due within four months of a fund's financial year end, the first began trickling out this month for funds with a 30 September year end. While there is no enforced template for the reports, pacesetter Vanguard has set down a marker for others to follow by providing readable consolidated report for multiple funds.

EASY TO READ SNAPSHOT

Vanguard, one of the world's largest fund management firms, used a neat traffic light system for the 29 UK funds reviewed, giving readers an easy on the eye snapshot.

'Over 12 months, three years, five years and 10 years respectively, 93%, 96%, 92% and 75% of our UK-domiciled funds have outperformed their peers', the Vanguard report stated clearly, before going into detail about what it sees as 'good value', how it measures performance and how it believes it could improve.

Handing its funds largely green lights (for 'good value'), it did flag four with an amber signal for poor performance.

Vanguard's report highlighted two active funds, its £65m **Vanguard Global Equity (BZ82ZT6)** and £37m **Vanguard Global Equity Income (BZ82ZW9)**, for underperformance over one and three years.

In its passive range, the £2.2bn **Vanguard FTSE Developed Europe ex-UK Equity Index (B5B71H8)** and the £1.25bn **Vanguard FTSE UK Equity Income Index (B59G4H8)** failed to match benchmarks over five years.

Vanguard has promised that the four flagged funds would be closely monitored, while the group has modified fees to reflect the performance undershoot.

Investment management firm Rathbones assessed eight of its 35 funds and concluded that six of them were consistently meeting objectives, but the other two were failing. Rathbones admitted that in the five years



to the end of September 2019, its £48m **Rathbone UK Opportunities Fund (B77H7W3)** returned 28% compared to its benchmark's return of nearly 40%. It said the fund, which has an ongoing charge of 0.61%, will be closely monitored.

Rathbones will pull the plug on its other poor performer, the £118m **Rathbone Global Alpha Fund (B8W5FR0)**, after admitting that it had 'consistently underperformed its benchmark'.

A GOOD START, BUT NOT PERFECT

There is little doubt that value for money reports will be a useful new addition to the information for fund investors, but there are possible drawbacks, not least the sheer volume of data and access to it. For now investors have to go direct to each fund management firm for reports, a significant faff if you're trying to compare funds across multiple providers.

In an ideal world every fund will make its AoV available to third parties, investment platforms like AJ Bell and Hargreaves Lansdown for example, and data providers like Morningstar say, giving investors access to all from a single provider. But that may or may not happen.

Added complexity comes from trying to compare suitable funds for individual investors, each with their own unique objectives, ambitions and risk sensitivities.

For instance, the **Polar Capital Global Growth Fund (B42W4J8)** has ripped its benchmark's (the Dow Jones Global Technology Net Total Return index) performance to shreds, over three, five and 10 years, but it is also a high growth, higher risk fund, so will not be for everyone.

There is also nothing to stop fund management firms concentrating on their own particular strengths. For example, Vanguard highlights that its ongoing charges for its UK funds are 'on average 73% cheaper than the average for their respective sectors,' and that its funds are 'typically ranked within the lowest 10% of their respective peer groups in terms of cost.'

This is largely because of Vanguard's economies of scale, and while it is relevant information, it is worth bearing in mind that such data plays very much to Vanguard's key low-cost model objective, which may not be crucial for every investor.

We understand that Aviva Investors and Merian Global Investors are expected to publish their AoV reports later in February, with Schroders and Artemis in April. Other big fund firms, like Jupiter, M&G and Fidelity are expected to follow suit later in the year.



By **Steven Frazer**
News Editor

Can you get your money out of a fund when you need to?

Why accessing your cash fast is easier from some products than others

Since the collapse of funds run by the one-time star fund manager Neil Woodford, the question most fund investors want the answer to right now is ‘how quickly can I get my money back should I choose to sell?’

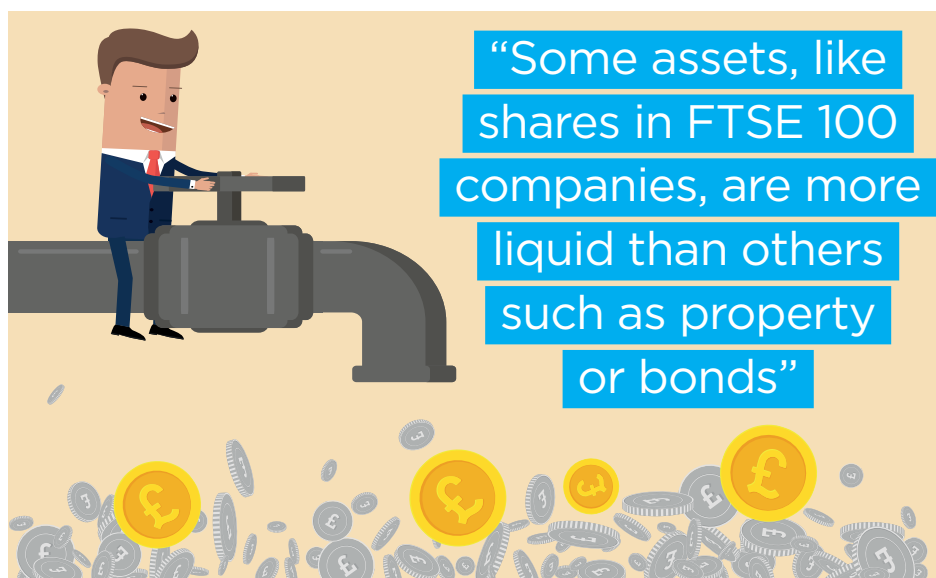
The ease with which you can buy or sell an asset is defined as its liquidity. It matters because there might be a time when you need access to a big chunk of cash at short notice, and so it would invariably be important to be able to sell some or all of your holdings quickly.

You might also want to move your money because your risk profile has changed or you have seen a more compelling investment opportunity.

DIFFERENT LIQUIDITY LEVELS

It’s important to understand that some assets, like shares in FTSE 100 companies, are more liquid than others such as property or bonds, where there can be fewer people trading them and so it can take longer to find a buyer. In the case of property the buying and selling process is also inherently more time-consuming and complicated.

The Woodford debacle and subsequent spotlight on the industry means that funds are becoming more upfront on



liquidity, such as publishing information on how long it might take to sell all their assets, should they be forced to.

So far we’ve only seen a handful of asset managers publish this information and we would welcome greater clarity from the industry.

For example, **Fundsmith Equity (B41YBW7)** estimates in its latest monthly factsheet that it could liquidate 62% of its portfolio in seven days.

This compares with the two months it took for Aberdeen Standard Investments to liquidate its Emerging Markets Government Bond fund and return money to investors, which it had to do after two big clients decided to withdraw their funds.

Investing in open-ended

property or even bond funds carries a higher risk that the fund manager won’t be able to sell enough assets in time to meet all requests from investors for their money back (also known as redemptions) because the underlying assets can be illiquid.

Dealing in several property funds had to be suspended in the wake of the market shock created by the Brexit vote in June 2016, in order to give the fund managers more time to sell assets at the best possible price.

WHAT HAPPENED WITH WOODFORD?

Those investing in Woodford’s open-ended equity funds would have, not unfairly, expected to be able to sell their investments the day they needed to, or the

day after, as advertised. So not being able to get their money back quickly, with trading in the funds suspended for more than six months, was undoubtedly a huge shock.

A large part of the reason they couldn't was that Woodford had invested in a lot more illiquid, i.e. hard to sell, stocks than people realised. Some were not quoted on any mainstream stock exchanges.

The Association of Investment Companies (AIC), which represents investment trusts, believes the liquidity problems suffered by Woodford and property fund investors has arisen due to 'foreseeable failures of product design and inadequate regulation'.

Its chief executive Ian Sayers says: 'Like a square peg in a round hole, daily redemption and hard to sell assets just do not fit together. It is this mismatch that threatens financial stability. The worst case is a vicious cycle of redemptions leading to further fund collapses and declining asset values.'

LIQUIDITY MONITORING

The concerns about liquidity are not lost on the investment fund industry, with many telling *Shares* the issue is a big focus for them.

Liontrust says some of its funds contain small cap stocks which can be more illiquid than larger companies. Yet the asset manager argues that not all illiquid small caps are the same, with it being easier to find a buyer for good, profitable companies that fit its investment criteria – low gearing, high cash flow return on capital, having an owner-manager culture and

LOOK AT THE 'EMS' FIGURE TO GAUGE LIQUIDITY

LONDON STOCK EXCHANGE'S website publishes an Exchange Market Size (EMS) figure which gives you some guidance on how many shares in an individual company you can sell readily.

FTSE 100 constituent **Vodafone (VOD)** has an EMS of 10,000 which at a share price of 150p implies you would have no issue selling up to £15,000 worth of stock in one go.

Small cap pharmaceutical firm **Synairgen (SNG:AIM)** also has an EMS of 10,000 but its 15.5p share price means you may only be able to sell £1,500 worth of shares in a single transaction.

being a business that's difficult to replicate.

Keith Skeoch, chief executive of Standard Life Aberdeen, says his company's equity funds only invest in shares that can be traded on stock exchanges, with risk management a 'central part' of its investment processes, which includes liquidity monitoring undertaken by fund managers.

He adds: 'Liquidity can be an issue in public market securities – both equity and bonds – which is why we're very vigilant in monitoring it.'

BlackRock Special Situations (B3R25W6) fund manager Roland Arnold says liquidity 'has always been front and centre in BlackRock', adding that he has a monthly meeting to talk about liquidity and risk in his fund.

A spokesperson for Jupiter says liquidity has 'always been

SECURITY INFORMATION	
FTSE index	FTSE 100, FTSE 350, FTSE 350 High Yield, FTSE 350 (ex IT), FTSE All-Share, FTSE All-Share (ex IT), FTSE Eurotop 100 Index, FTSE Eurotop 300, FTSE techMARK All-Share
Market	Main Market
Market identifier code (MIC)	XLON
Trading service	SETS
Trading segment	SET1
Listing category	Premium Equity Commercial Companies
Country of share register	GB
ISIN	GB00BH4HKS39
SEDOL	BH4HKS3
Exchange market size	10,000
Security market cap, £m	40,456.62
*The market capitalisation of the security reflects data from previous trading day.	

a key consideration of our portfolio construction process as well as an integral part of risk oversight across our full fund range'.

NEW RULES ON THE HORIZON

The Financial Conduct Authority (FCA), a regulator, is introducing rules that will force asset managers to improve their liquidity measures and disclosures from September.

It should see investors in certain types of open-ended funds investing in illiquid assets being provided with clear information on liquidity risks, and the circumstances in which access to their funds may be restricted.



By Yoosof Farah
Reporter

What happens to pension assets if I get divorced?

Our resident pensions expert explains three options to consider when assessing retirement savings upon a marriage ending

I know this makes me a bit of a misery guts, but I'm getting married in a year and started thinking about what happens to my assets – and particularly my pension – if we get divorced. Clearly this isn't my plan or hope, but equally I want to be prepared just in case.

Ben



Tom Selby
AJ Bell
Senior Analyst says:

There are somewhere in the region of 100,000 divorces every year in the UK, with roughly four in 10 first marriages failing to last the distance. So while it might seem fairly miserable, it makes sense for all married savers to understand how divorce could affect their retirement plans.

When a couple get divorced, their pensions may be included in the division of assets and/or income that takes place. There are three options available:

1. OFFSETTING

Under offsetting, the value of the pension is (predictably) 'offset' against the other assets in the marriage. So if you hold a valuable pension and your ex-spouse does not, on divorce your ex-spouse might be granted a greater share of the other assets to 'offset' the value



of the pension you hold.

If you are offsetting a defined benefit (DB) pension – i.e. a pension that pays a guaranteed income based on your salary and the number of years you have worked for your employer – a 'cash equivalent transfer value' will be used to establish the value of the benefits you have built up. You should be able to request this from your pension scheme.

If you have a defined contribution (DC) pension like a SIPP, you simply use the value of the assets held in your fund.

2. EARMARKING

An ex-spouse can 'earmark' benefits in a pension, allowing them to access the income and/or lump sum benefits at some point in the future. This could be when the member retires or when they die.

Where a DB pension is earmarked, the ex-spouse will be awarded a percentage of the member's pension at the scheme's normal pension age – this is simply when they become entitled to income from the scheme.

For DC pensions, the ex-

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

spouse will receive a set percentage of the member's own pension rights and/or tax-free cash. In such circumstances care needs to be taken to ensure the award only relates to funds accumulated up to divorce and the related growth, not the value resulting from subsequent payments into the pension.

Under earmarking, the pension remains 'owned' by the member and the ex-spouse has no control over when they receive their money. This allows the member to delay taking an income from their pension, potentially depriving the ex-spouse of an expected income. For this reason, earmarking isn't a popular option.

It's also worth noting that where the member or the ex-

spouse die, the payment of any benefits in relation to it will end. This is also the case if the ex-spouse remarries (but not the member).

3. PENSION SHARING

Pension sharing splits the scheme member's pension rights at the time of divorce. For DC this will be expressed as a percentage of the fund, while for DB it is in terms of the

benefits to be received.

Because pension sharing achieves a clean break, the death or marriage of either party has no impact – instead each person has a legal right to their portion of the income and/or tax-free cash from the pension. This clean break also makes it the most popular choice for dealing with pensions on divorce.

As you can imagine, this is a complex area and I've only been able to touch briefly on the options available. So make sure you read around further and, if you are going through a divorce involving a significant pension, speak to a lawyer, an FCA qualified financial adviser, and your pension provider to confirm options before making any decisions.

"It makes sense for all married savers to understand how divorce could affect their retirement plans"



The Scotsman Investment Event 2020

**MARCH
10TH 2020**

The conference will discuss the outlook for global markets as we look to 2020 and beyond.

- How can investors best position themselves amid changing central bank policies and climate change?
- Can we finally look beyond the doom and gloom of Brexit and see UK equity growth?

Our industry experts will give practical advice for investments in 2020 on a global scale. The conference also includes morning refreshments and networking.

Confirmed speakers include:

David Coombs, Rathbone Investment Management

Zehrid Osmani, Global Portfolio Trust at Martin Currie

Tom Sieber, Deputy Editor of Shares magazine

8:30am - 11:am
Edinburgh Sheraton
Grand Hotel & Spa

BOOK YOUR FREE PLACE AT
www.scotsmanconferences.com

Rathbones
Look forward

MARTIN CURRIE
A Legg Mason Company

AJBell

How to save money on your internet and phone bills



Providers now have to tell you when contracts are ending so you can shop around for a better deal

It is easier for anyone with a broadband, TV, landline or mobile phone to find out when their monthly costs are about to be hiked thanks to changes that came on 14 February.

New rules from the regulator, Ofcom, mean that your provider now has to warn you when you're current contract is ending, which is usually when prices are hiked. The move is expected to alert more than 20m people to the fact that they are out of contract and paying above the odds.

WHY ARE THE CHANGES HAPPENING?

The new plans from Ofcom are trying to tackle the so-called 'loyalty penalty' whereby existing customers whose contracts have ended pay far more than new customers, who can access cheaper introductory deals. This happens in lots of other markets too, from mortgages and insurance to energy bills.

As part of the changes, broadband, TV, landline or mobile phone providers will have to contact you between 10 and 40 days before your contract comes to an end, reminding you that the date is



coming up.

They will also highlight any price changes that will happen after that date – which is usually a hike in the price – and they will have to tell you about any deals that you could get if you switched to another contract with them. If you don't decide to switch, then you'll get a reminder every year with the same information.

Some people will choose to ignore these reminders, thinking it's too much hassle to worry about switching, or that they can't save enough money to make it worthwhile. But for others it will be the prompt they need to switch and save.

HOW MUCH COULD YOU SAVE?

The number of people who are out of contract is huge, with 40% of people with a combined phone and broadband service, or combined phone, broadband and TV service out of contract, and almost 90% of those with

HOW HAVE PROVIDERS RESPONDED?

AS PART OF a separate bit of work from Ofcom, some broadband providers have pledged to restrict the increases to your monthly bill once you're out of contract.

For example, Sky has pledged that out of contract customers will only pay up to £5 a month more than in-contract customers.

BT has pledged to cap the difference too, at £8, and says it will let those customers who are out of contract access the same deals as new customers. It has made an extra pledge that people who can't access superfast broadband will not pay more than those are on superfast deals.

Ofcom estimates that customers who are out of contract on their broadband service could save £100 a year by switching

a landline-only service are out of contract.

Ofcom estimates that customers who are out of contract on their broadband service could save £100 a year by switching.

Most people can reduce their costs quite easily if they call their current provider and haggle on the price. They'll usually be able to get the same package for a cheaper deal, or pay the same and get a better package or faster internet, for example. This is the lowest-hassle move, as it doesn't require you to switch providers or hunt around for a better deal.

However, you can save even more if you shop around other providers and switch. There are lots of price comparison

websites that allow you to compare costs and see if you could get the same package for a lower price. And even a £10 saving a month adds up over the year.

If you sign up to a new deal you will often have to enter a new contract, which usually means committing to another year or even two years with that provider. So if you know that you want to cancel soon or switch to a new provider in the near future, you can stick on the current rate – just make sure you remember to switch when you planned to.



By Laura Suter
AJ Bell Personal
Finance Analyst

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The stocks and indices which matter when investing in Europe

We take a look inside the Euro Stoxx 50 and DAX 30 indices

For investors looking to invest directly in European markets, the Euro Stoxx 50 is the leading index of blue-chip stocks from across the Eurozone, used by financial institutions both as a benchmark and as the underlying index for exchange-traded funds (ETFs) and hedging tools such as futures and options.

Over the last year the index has gained a respectable 21% compared with a gain of just over 5% for the FTSE 100 and a 23% rise in the S&P 500 in the US.

WHAT'S IN THE INDEX?

As its name suggests the index comprises 50 of the largest stocks from across the euro currency area, weighted by market capitalisation, and excludes stocks listed in the UK, Scandinavia and Switzerland.

The index is dominated by French and German companies, which make up over two thirds of the constituents by number, with smaller representations from Spain, Italy and the Netherlands. Belgium, Finland and Ireland are each represented by a single stock.

Unlike the FTSE, the Euro Stoxx 50 contains no mining

This is the third of a multi part series. [Part one](#) covered the FTSE 100 and FTSE 250. [Part two](#) covered the S&P 500 and Nasdaq Composite indices.

EURO STOXX 50 BY SECTOR



Financials	17.3%
Industrials	13.6%
Cons Discretionary	12.2%
Technology	11.1%
Cons Staples	10.2%
Healthcare	10.1%
Materials	9.5%
Energy	5.7%
Utilities	5.7%
Communications	4.8%

Source: Invesco. Data is based on Invesco Euro Stoxx 50 ETF structure

EURO STOXX 50 TOP TEN

Name	Weight %
SAP	5.0
Total	4.4
ASML	4.2
LVMH	4.0
Linde	3.9
Sanofi	3.8
Allianz	3.4
Siemens	3.4
Unilever	2.9
Airbus	2.9

Source: Invesco. Data is based on Invesco Euro Stoxx 50 ETF structure

or tobacco companies. The two sectors with the biggest number of stocks are consumer discretionary – personal goods, media, retail and automobiles – and financials, followed by healthcare and industrial goods and services. The sectors with the smallest number of stocks are chemicals, oil and gas, telecoms and utilities.

The biggest constituent of the Euro Stoxx 50 index is SAP at 5%. This is a European software business founded in 1972 in Germany and now with offices around the world. SAP stands for ‘systems, applications and products in data processing’.

One way of getting exposure to the index is via exchange-traded fund **Invesco Euro Stoxx 50 ETF (SX5S)**.

WHY THE DAX INDEX IS IMPORTANT

For investors specifically interested in the shares of German companies, the benchmark index is the DAX 30 which tracks the 30 largest companies traded on the Frankfurt Stock Exchange.

While the DAX is a capitalisation-weighted index like the FTSE and the S&P 500, unusually it is a ‘total return’ index which means that returns include reinvested dividends.

Over the past year the index has gone up 23.9%, including dividends, and unlike the FTSE it contains no mining, oil, gas or tobacco stocks as there are no large German companies which qualify for inclusion.

By number of stocks the DAX is heavily skewed towards consumer companies, such

DAX 30 BY SECTOR



Financials	17.3%
Materials	13.6%
Technology	12.2%
Cons Discretionary	11.1%
Industrials	10.2%
Healthcare	10.1%
Communications	9.5%
Utilities	5.7%
Real Estate	5.7%
Cons Staples	4.8%

Source: iShares. Data is based on iShares Core DAX ETF structure

DAX 30 TOP TEN

Name	Weight %
SAP	10
Linde	9
Allianz	8
Siemens	7
Bayer	7
BASF	5
Adidas	4
Deutsche Telekom	4
Munich Re	3
Daimler	3

Source: iShares. Data is based on iShares Core DAX ETF structure

as Adidas, BMW, Daimler, Lufthansa and Volkswagen. Financial stocks used to be a big part of the index and they now have a much smaller weighting than in the past, which is a similar story to the FTSE.

Other sectors with notable weightings are chemicals, thanks to BASF and Linde; healthcare, which is predominantly represented by Bayer and Merck; and technology, where

SAP is joined by chipmaker Infineon and payments firm Wirecard.

There are various tracker funds providing exposure to the DAX 30 index including exchange-traded fund **iShares Core DAX ETF (OMLH)**.



By Ian Conway
Senior Reporter

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What is behind Bitcoin's latest comeback?

The cryptocurrency is nearing the \$10,000 mark again



At a time when a FTSE 100 member's shareholder list looks flaky and shares in a fake meat company's shares are sizzling again in the US it may come as no surprise to some investors that an alternative currency (or a fake one, depending on your viewpoint) seems to be coming back into vogue. Bitcoin is once more nearing the \$10,000 mark.

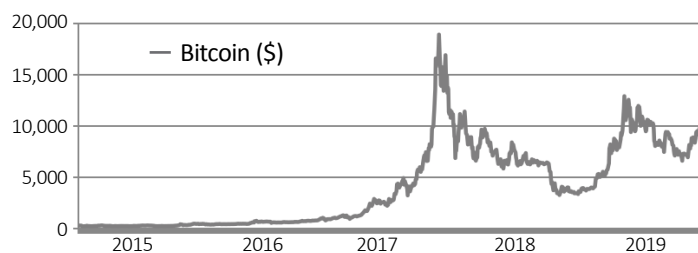
Some may view this as another reason to view markets as worryingly frothy, as a plentiful supply of liquidity from central banks keeps them bubbling along. Others will argue the cryptocurrency's return to favour affirms their view that central banks' continued provision of cheap cash is only serving to debase existing currencies and open the way to major reset.

Bitcoin first reached \$10,000 in December 2017, briefly recapturing that level in summer 2019 and the cryptocurrency is now trying again, as it trades near \$9,800. That is still a long way below its all-time high of \$18,941 from late 2017 but it represents a stunning recovery from the December 2018 low of \$3,196.

SHOW ME THE MONEY

According to the website www.coinmarketcap.com, the total value of Bitcoins in circulation is \$178bn.

BITCOIN IS ENJOYING ANOTHER GOOD RUN



Source: Refinitiv data

That represents almost two-thirds of total crypto market valuations and means

Bitcoin is valued more highly than **Royal Dutch Shell (RDSB)**, the largest company in the FTSE 100. It also means Bitcoin is bigger than all but luxury goods giant LVMH in Europe's Eurofirst 100 index and would rank 32nd by market cap within America's S&P 500 equity benchmark for good measure.

If Bitcoin keeps going, this could well rekindle the debates as to whether Bitcoin is 'money'. That in turn fuels discussion over whether it is worthy of consideration as investment as part of a balanced portfolio.

The case for considering Bitcoin to be 'money' is that cryptocurrencies are money, as they facilitate transactions over time and distance and represent a trusted medium (at least by some), just as cowrie shells, cows, metal, slips of paper and plastic cards have since time immemorial.

So long as someone believes in cryptocurrencies they and their network have a value – and the more people there are in the network then the more value they may have.

Sceptics have three specific counter-arguments to this. First, the Bitcoin mining process is inefficient and energy intensive. Second, Bitcoin miners' and transaction fees can make using the cryptocurrency inconvenient or even expensive, especially for micropayments.

Finally, Bitcoin is not a particularly efficient payment system. It can handle a maximum of around seven transactions per second. Visa deals with around 1,700.

When it comes to seeing Bitcoin as an investment, believers will point to the crypto's resurgent price.

Fans will also point to how Bitcoin supply is limited



to 21m, a stark contrast to central bank-controlled fiat currency and an era of record-low interest rates, quantitative easing and spiralling government spending plans and budget deficits – and that is even before we get to Modern Monetary Theory.

In sum, Bitcoin is viewed by supporters as a store of wealth and protection against central bank and governmental monetary profligacy.

VALUE VERSUS PRICE

So-called 'no-coiners' will dismiss such arguments on three counts. First, they say, there is a theoretical limit to the supply of Bitcoins but the proliferation of initial coin offerings (ICO) suggests that cryptocurrencies are no better at managing supply and providing sound money than the central banks.

The coinmarketcap website lists over 2,300 different cryptocurrencies. Second, the Mt. Gox disaster, 2017's enforced shutdown of the Silk Road website and 2019's Bulgarian OneCoin scandal show that cryptos are subject to fraud (not that this admittedly unduly distinguishes them from other forms of remote payment or investment).

Finally, non-believers will assert that cryptos' biggest alleged strength – they are not authorised or regulated or subject to 'official' control – is their biggest weakness.

Unless Bitcoin can be used to buy groceries or pay taxes, they have limited use and thus value, no matter how many you have, goes the argument, while there is always the risk that the authorities do get involved.

US president Franklin Roosevelt's Executive Order 6102 criminalised the possession of gold in 1933 and Facebook's Libra payments project has quickly encountered substantial central bank opposition.

As banking dynasty founder Mayer Amschel Rothschild once said: 'Permit me to issue and control the money of a nation and I care not who makes its laws.' It seems unlikely that central banks will cede control, although Bitcoin believers will argue they could lose it.

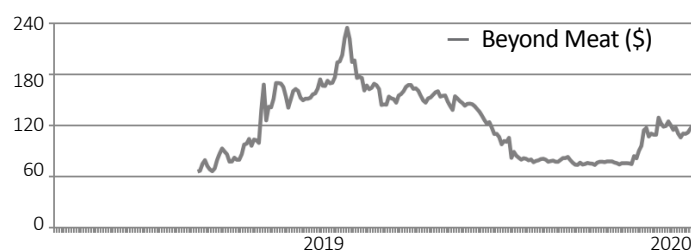
It may be no coincidence that Bitcoin and cryptocurrencies are finding fresh support in the wake of 2019's central bank policy U-turn which



saw a shift to cutting interest rates rather than raising them and even fresh US Federal Reserve intervention in the US interbank funding markets.

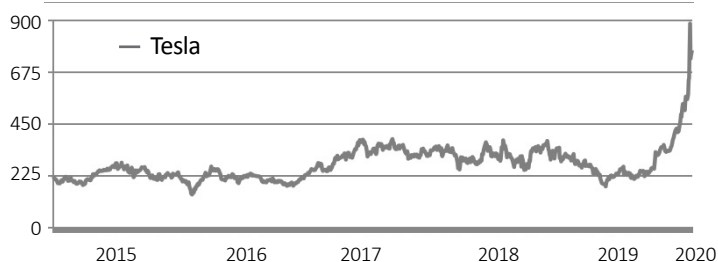
Gold has rallied, too, perhaps for the same reasons. Although looking at the recent share price performance of meat-alternative provider Beyond Meat and next-generation car maker Tesla, older heads may just be tempted to dismiss Bitcoin's renaissance in this context as the latest in a long line of bubbles fuelled by central bank-provided liquidity.

BITCOIN IS NOT THE ONLY ALTERNATIVE INVESTMENT TO HEAD BACK INTO ORBIT IN 2020, WITH BOTH BEYOND MEAT



Source: Refinitiv data

... AND AUTOMOTIVE REVOLUTIONARY TESLA HEAVILY FAVOURED BY INVESTORS



Source: Refinitiv data



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- Discover new investment opportunities
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Speaker: David Page, Chairman

Fulham Shore (FUL) owns and operates the 'Franco Manca' and 'The Real Greek' restaurant brands.

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Speaker: Brad Sampson, CEO

Kore Potash (KP2) is an advanced stage mineral exploration and development company.

PCF BANK

Speaker: Scott Maybury, Chief Executive

PCF Bank (PCF) established in 1994 to bring two qualities into motor vehicle, SME asset finance and property finance: simplicity and customer focus.

SKINBIO THERAPEUTICS

Speaker: Stuart Ashman, Chief Executive

STV Group (STVG) is one of the UK's leading content businesses and is Scotland's biggest indie.

STV GROUP

Speaker: David Mortimer, Managing Director

SkinBio Therapeutics (SBTX) is a life science company. The company is engaged in the development of technology to protect, manage and restore skin utilising proteins found in human microbiota.

Event details

Registration: 17.45
Presentations to start at 18:15
Complimentary drinks and buffet will be available after the presentations

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

21 February: Pearson. **24 February:** Ascential, CC Japan Income & Growth, EasyHotel, Kosmos Energy, Merian Chrysalis, Quartix, Reach, RTC. **25 February:** Croda, Hammerson, Meggitt, Petrofac, Synectics. **26 February:** Avast, Restaurant Group, Rio Tinto, Serco, Taylor Wimpey, William Hill. **27 February:** Bakkavor, Evraz, FBD, Flutter Entertainment, Grafton, Hikma, Hunting, Inchcape, MacFarlane, Mondi, Persimmon, PPHE Hotels, Provident Financial, Reckitt Benckiser, Rentokil Initial, RSA, St James's Place, WPP.

Half year results

24 February: Dechra, Finsbury Foods, Tristel. **25 February:** Bluefield Solar Income, Clinigen, DotDigital, Hotel Chocolat, Innovaderma, Springfield Properties. **26 February:** Avingtrans, Revolution Bars, Town Centre Securities. **27 February:** Haydale, Netcall.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth	DEPUTY EDITOR: Tom Sieber @SharesMagTom	NEWS EDITOR: Steven Frazer @SharesMagSteve
FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames	SENIOR REPORTERS: Martin Gamble @Chilligg Ian Conway @SharesMagIan	REPORTER: Yoosof Farah @YoosofShares CONTRIBUTORS Russ Mould Tom Selby Laura Suter

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

CONTACT US:
support@sharesmagazine.co.uk

PRODUCTION
Head of Design
Darren Rapley
Designer
Rebecca Bodi

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