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VOL 22 / ISSUE 08 / 27 FEBRUARY 2020 / £4.49

SHARES

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CORONAVIRUS MARKET SELL-OFF: WHAT'S MOVING

SCOTTISH MORTGAGE BOSS ON TESLA AND AMAZON

Should you buy safe haven assets as markets wobble?

Investors are turning to gold and US government bonds as stock markets go through a difficult patch

The large sell-off in stock markets around the world on Monday 24 February has pushed investors towards safe haven assets as they try to avoid losing money.

Natural homes for money in times of strife include US government bonds, defensive sectors like beverages, pharmaceuticals and utilities, gold and cash. This list could also include funds that invest in infrastructure assets such as healthcare centres.

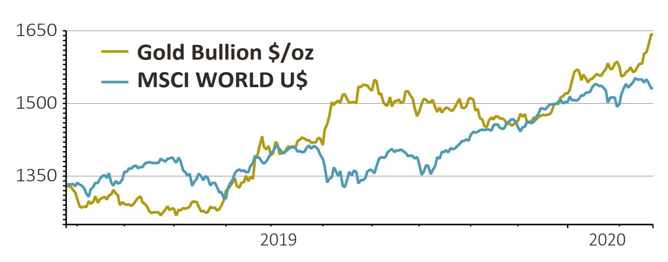
Gold has been one of the more dependable places to invest during the latest market turmoil. Its value has risen by approximately 11% year-to-date to $1,682 per ounce as the coronavirus disaster has unfolded, including a 2.4% rise at the start of this week.

In contrast, many defensive sectors saw their valuations plummet on Monday as a wave of panic spread across markets. This is a reminder that defensive doesn't mean risk-free.

You can still lose money with these types of investments, but potentially less relative to the broader market. On the flipside, safe havens tend to lag a rising market.

ODD MARKET BEHAVIOUR

Unusually, gold has actually risen in value this year at the same time as stocks have gone up. Traditionally the metal would fall in value if stocks were rallying.



GOLD HAS RECENTLY GONE UP IN TANDEM WITH EQUITIES, WHICH IS UNUSUAL

The latest price movement would suggest that recently investors have been behaving in two distinct groups – one which remained fearful and continued to buy gold, the other which has been complacent about the coronavirus risks and kept buying shares.

History suggests this recent trend of moving in the same direction had to break down at some point, which is precisely what's happening now with gold rising and shares pulling back.

WHAT SHOULD INVESTORS DO NOW?

Investors may naturally feel compelled to shift their portfolio into gold and defensive assets. It would be a mistake to make major adjustments to your holdings simply because of a terrible day on the markets.

The only adjustments worth making are ones to ensure you have a diversified portfolio to help spread risks. It's fine to have some gold, bonds and some defensive sectors like utilities and beverages, just don't make them the dominant holdings as you could be giving up some key growth drivers.

If you've got into a regular investing habit and are feeling nervous about the current state of affairs, keep feeding your ISA or SIPP with more cash. It's fine to temporarily sit on your hands while the cash builds up. You can put that money into the markets when you are ready.

Ultimately the best guidance we can give is to remain calm, stay invested and simply ride out the ups and downs of the market. Take a long-term view and don't check your portfolio values on a daily basis as that could only make you worry.

By **Daniel Coatsworth** Editor

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The stocks sinking and soaring as global markets wobble

Analysing how stock markets have behaved on escalated coronavirus fears

On 24 February stock markets finally seemed to hit the panic button on the coronavirus with the FTSE 100 hitting its lowest level since early December and the Dow Jones index in the US enduring its worst day in two years.

WHAT TRIGGERED THE MARKET SELL-OFF?

The catalyst for the big sell-off in global equities was news of significant outbreaks in Italy and Iran which seemingly had no direct link to China. The spread of a meaningful number of cases to a European country in particular seemed to alarm investors.

As we write the World Health Organisation has resisted declaring a pandemic, which is loosely defined as when a new disease to which people do not have immunity spreads around the world beyond expectations. However, experts have warned we are at a 'tipping point' after which it will be difficult to prevent a pandemic.

For a period the markets seemed remarkably relaxed about the impact of the coronavirus, with indices like Germany's DAX and the S&P 500 in the US reaching record highs despite the worsening situation in mainland China.

Major markets hit panic button

Index	Performance
DAX (Germany)	-7.5%
CAC 40 (France)	-6.9%
S&P 500 (US)	-6.3%
FTSE 100 (UK)	-6.1%

Source: Sharepad. Data 21 Feb market close to 10am 26 Feb 2020.

Gradually sentiment has turned, first as the supply chain risks we previously flagged became real thanks to Apple's iPhone sales warning. It became increasingly clear the impact of the virus wouldn't be contained to China.

UBS chief investment officer Mark Haefele has some sound advice for anyone spooked by the latest developments. He says: 'As with any sudden sell-off, it is important for investors to maintain a long-term perspective, and to manage risks through asset class and global diversification.

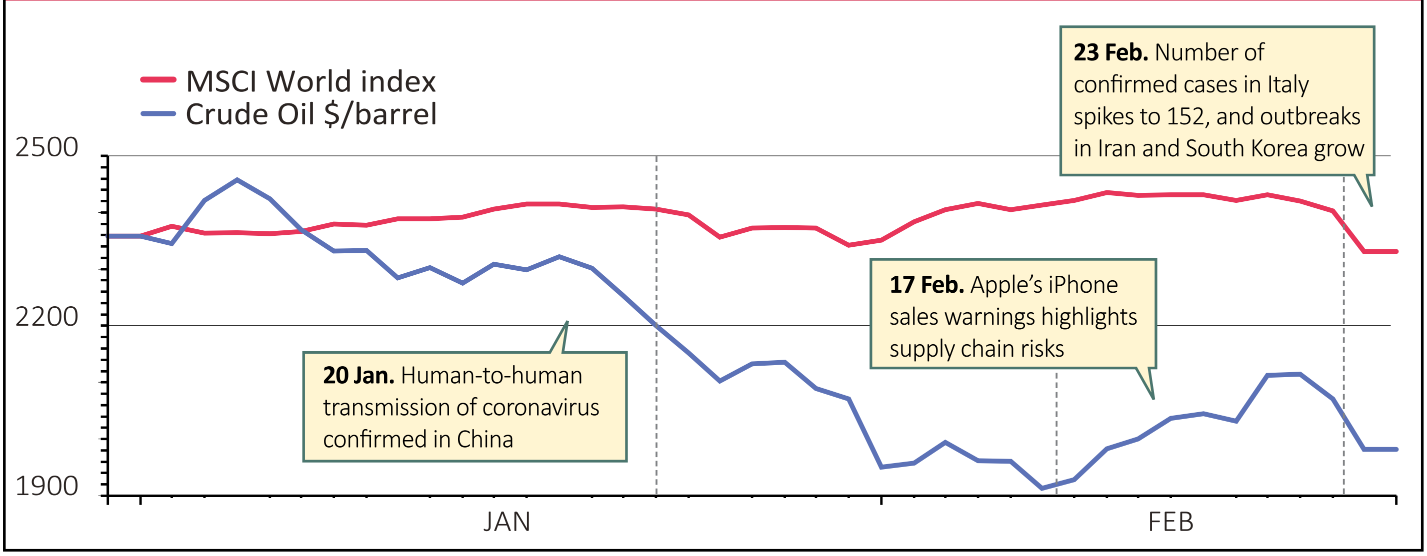
'It is also important not to neglect other factors which can drive the market, particularly given that monetary, fiscal and other policy responses to the crisis could emerge in the coming days and weeks.'

WHAT'S HAPPENED TO COMMODITY PRICES?

Commodity prices have arguably been a canary in the coal mine for the economic impact of this health crisis. Oil prices fell well before there was a significant sell-off in global stocks. At time of writing Brent crude traded around the $55 per barrel mark, having moved above $70 at the beginning of 2020 on tensions between the US and Iran.

Gold prices have surged as people have sought out safe haven assets and despite some subsequent profit taking in the precious metal it remains within sight of multi-year highs.

Oil prices were falling well before stocks slumped



WHICH STOCKS AND SECTORS HAVE BEEN HIT?

Not all sectors are affected equally by the coronavirus. Initially the focus was on those companies with exposure to the Chinese consumer or manufacturing bases in the country. Now the spread of the virus is starting to have a broader impact on the world of business.

This is most obvious in the travel sector which could see a pronounced reduction in demand as people's fears about the risk of infection grow. The impact could be particularly acute if there are serious outbreaks in key holiday destinations in the Mediterranean.

On 25 February a string of UK stocks warned on the coronavirus impact: engineering consultant **Ricardo (RCDO)**, heat resistant product maker **Morgan Advanced Materials (MGAM)** chemicals business **Croda (CRDA)** and aerospace firm **Meggitt (MGGT)** all cited it as a headwind.

WHAT COULD HAPPEN NEXT?

The next two weeks could be crucial as 14 days appears to be the rough incubation period of the disease. At the end of this spell we should have an indication of whether the significant incidences of disease in Italy, Iran and South Korea will prove the exception or the precursor to a pandemic affecting a larger number of countries.

Travel and leisure stocks hit hard by coronavirus outbreak

Company	Performance
EasyJet	-22.5%
Ryanair	-20.0%
PPHE Hotel	-17.9%
TUI	-17.9%
Wizz Air	-16.2%
International Consolidated Airlines	-12.6%

Source: Sharepad. Data 21 Feb market close to 10am 26 Feb 2020.

Bucking the trend: top London-listed performers on day of the global markets sell-off

Stock	Reason / company description	One day share price rise
Novacyt	Stock in demand after developing a coronavirus test	33.3%
MetalNRG	Benefited from gold price rise	20.0%
Botswana Diamonds	Reported positive exploration news	19.4%
Synairgen	Topical as it is developing a respiratory drug	19.3%
Trackwise Designs	Wins first production order for its IHT technology	19.1%
Canadian Overseas	Oil and gas explorer extends recent rally	19.0%
Byotrol	Stock in demand as makes antimicrobial sanitisers and wipes	15.8%
Altyn	Benefited from gold price rise thanks to exploration interests	15.2%
Orosur Mining	Another gold price rise beneficiary	14.8%
Argos Resources	Oil and gas explorer rebounds from recent share price slump	14.1%

Source: Shares, Sharepad. Performance on 24 Feb 2020.

Hafefe at UBS adds: 'If Europe and/or North American nations were to replicate the aggressive containment measures employed in China, it could mean materially lower economic growth in the first half of the year, and require offsetting actions from monetary and fiscal authorities to prevent a prolonged downturn.'

The positive news is that China does seem to have achieved a measure of control over the coronavirus with the number of new cases slowing. Nina Deka, healthcare analyst at specialist asset management ROBO Global, observes: 'Pharmaceutical companies like Regeneron, J&J, AbbVie, and Gilead have been racing round-the-clock to develop treatments and vaccines.' However the WHO has suggested it could be 18 months before a vaccine is publicly available.

Breaking up Prudential would not be straightforward

Activist shareholder Dan Loeb calls for its US and Asian operations to be separated

Global insurer **Prudential (PRU)** is in the crosshairs as activist investor Dan Loeb took a near-5% stake in the company and urged the FTSE 100 constituent to separate its US and Asian operations.

Loeb runs Third Point, manager of investment trust **Third Point Offshore (TPOU)** which we recently featured as a *Great Idea* in *Shares*.

He believes a break-up of Prudential, which last year demerged its UK and European savings and investment business **M&G (MNG)**, could help unlock latent value in its Asian operation.

Just by shuttering its UK headquarters and running the US and Asian businesses as individual entities with their own local HQs, Loeb believes savings of £200m per year could be achieved.

The US business is lower growth than the Asian arm but is seen in some quarters as providing the necessary cash to underpin Prudential's dividend. The Asian operations could become a takeover target if separated from the US business, say analysts.

Asia
H1 2019 sales
£1.98bn

US
H1 2019 sales
£831m

What to buy and sell if inflation keeps rising

The latest cost of living figures took the market by surprise

Economists and the Bank of England received a rude reminder last week that inflation has a nasty habit of confounding expectations.

According to the Office for National Statistics, consumer prices rose at an unexpectedly high 1.8% in January, compared with just a 1.3% increase in December and forecasts of a 1.6% increase.

The difference of 0.2% between consensus estimates and the actual inflation rate may not sound much, but the Bank of England's target rate is 2% which is only another 0.2% above the January figure.

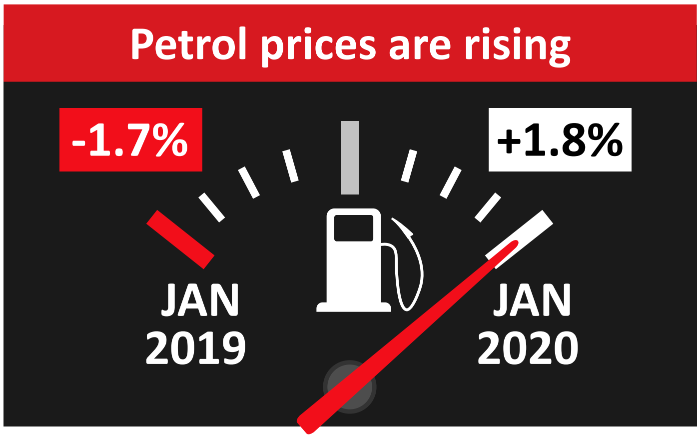
WHAT'S BEHIND THE RISE?

The Government's official measure of inflation is the consumer price index (CPI), which it uses to target inflation in the 2% range.

However the most comprehensive measure of inflation is the CPIH. This includes a measure of the costs associated with owning, maintaining and living in your own home, known as owner occupier's housing costs (OOH), as well as council tax.

Despite the fact that these are significant expenses for many of us, they aren't included in the official CPI calculation but the OOH has been rising recently and has actually been one of the main drivers of underlying inflation.

As well as rising home ownership costs, gas and electricity prices contributed to the January inflation spike. In the same month a year earlier energy prices fell versus the previous month, thanks to the introduction of price caps. This January prices were flat on the previous month.



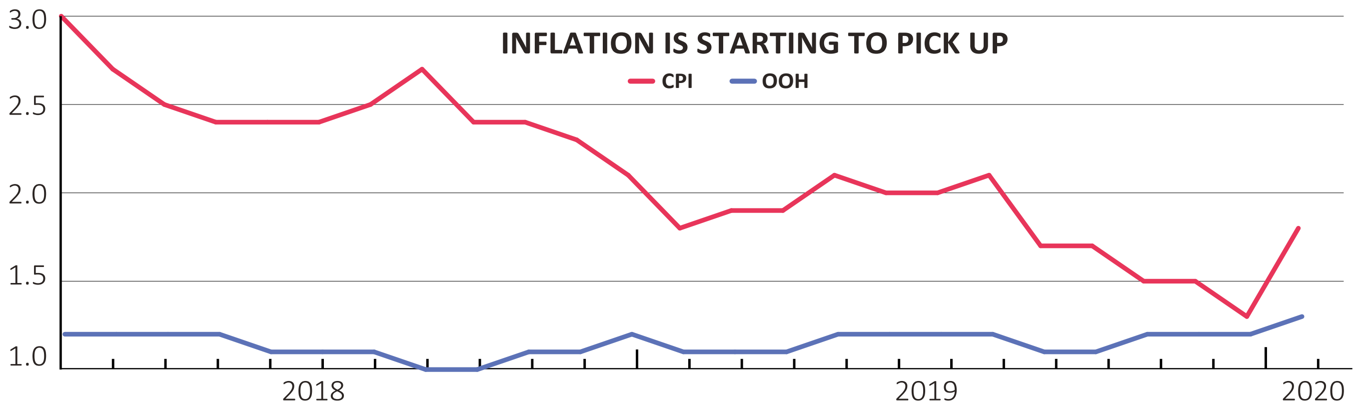
Source: ONS. Change versus previous month

In January 2020 the price of petrol increased by 1.8% versus the previous month; a year earlier they declined by 1.7%. The price of women's clothing increased and air fares fell by less than they did a year ago.

OTHER FACTORS TO CONSIDER

There are also a couple of longer-term factors which have been driving prices up over time, as we flagged in December.

Record low levels of unemployment and the introduction of the National Living Wage have



Source: ONS

increased labour costs for companies, which have been slowly raising the price of the goods they sell to protect their profits.

A second factor driving up prices has been the weakness of the pound against the dollar and the euro. The fall in the value of the currency since the referendum vote in 2016 has had the effect of making imported goods more expensive.

Crucially, this increase in prices isn't just a UK phenomenon. US consumer prices rose 2.5% last month on an annual basis, up from 2.3% in December. Industrial prices jumped 2.1% in January against forecasts of a 1.6% increase and also in the context of a mere 1.3% advance in December.

The UK's new work visa system could drive up pay levels

COULD INTEREST RATES RISE INSTEAD OF FALL?

With the headline rate of inflation as measured by the CPI having fallen steadily since mid-2019, the Bank of England was under pressure to cut interest rates at its December meeting but wisely, as it turns out, it chose to hold fire.

Now, with inflation resurgent and everything from industrial confidence surveys to house prices pointing to a re-acceleration in the UK economy after several years of stagnation, the question is whether or not the increase is temporary and whether the central bank may eventually have to raise rates at some point.

Given the tightness of the labour market, the Government's new work visa system due to come into effect next January is likely to force firms

WHAT TO BUY OR SELL WHEN THERE IS RISING INFLATION

✓	Companies with pricing power
✓	Value stocks
✓	Gold
✗	Bonds
✗	Growth stocks on high ratings

Source: Shares

to increase pay levels if they want to keep their existing staff, let alone attract new talent.

Pressure on the Bank of England could also come from savers, many of whom are already struggling to earn enough of a return on their cash to maintain their standard of living.

WHAT DOES IT MEAN FOR STOCKS AND BONDS?

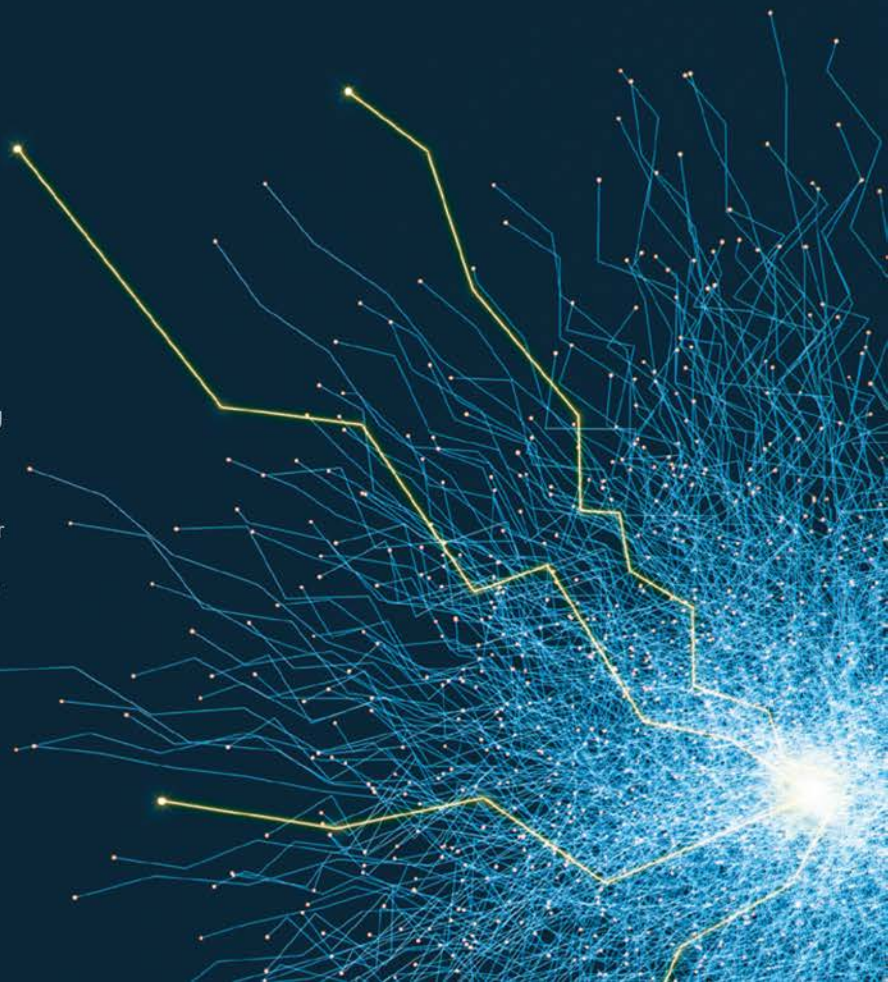
Rising inflation is every bond investor's worst nightmare as inflation eats away at the yield on bonds. With a huge volume of fixed-income instruments trading on negative yields the potential for an unruly sell-off rises along with the CPI.

For equity investors rising inflation is good for firms with 'pricing power', i.e. those that can push through rising costs. Food producers, cigarette manufacturers and any firm which offers a subscription service should be able to increase prices to their customers.

UK supermarkets will also welcome higher inflation although constant pressure from the German discounters Aldi and Lidl to remain competitive on price will probably 'keep them honest' at least to begin with.

Value stocks are also likely to shine. When growth and inflation is scarce, investors typically pay up for growth stocks, and due to the weakness of the recovery from the financial crisis they have been paying an ever-increasing premium for 'quality growth'.

Finally, rising inflation could spur further gains in gold, which is a traditional hedge against rising consumer prices. However before getting carried away, investors need to consider that the UK may be an outlier in terms of price trends and gold is a global commodity so gains may depend more on events beyond these shores than within them.



Tristel has a role to play in tackling coronavirus

It specialises in infection and contamination control

Even before the appearance of China's coronavirus, infection and contamination-control products group **Tristel (TSTL:AIM)** was delivering strong growth as it taps into increasing demand for safe, high-level disinfectants that kill all microorganisms.

On 24 February the company reported revenue for the six months to 31 December 2019 up 22% at £14.6m accelerating from the 18% growth in the prior half while pre-tax profit advanced 25% to £3m.

Chief executive Paul Swinney says the coronavirus provides a significant tailwind for the company, commenting: 'As a globally-recognised infection prevention brand, with some of the world's best-known disinfection technology, there are significant macro factors that will support Tristel's continued progress.'

The company's unique disinfectant formulation is effective against all viral strains including coronavirus. As testament to the effectiveness of its products the firm recently shipped 10 pallets of its surface disinfectant to the Chinese military despite it not being formally approved there.

TRISTEL BUY
(TSTL:AIM) 490p
Stop loss: 392p

Market value: £220m

Growth is underpinned by new product approvals and the company expects to receive its first medical device approval in India during the next few months.

Despite rising 60% over the last year we expect the shares to be supported by strong business momentum which is likely to be sustained by an environment characterised by heightened worries over the spread of infectious disease.

THE RIGHT CHEMISTRY

The founding shareholders developed a proprietary chlorine dioxide formulation in 1993 for use in flexible endoscopes to replace Glutaraldehyde which was traditionally used to sterilise medical instruments.

Glutaraldehyde was known to be toxic which allowed Tristel to capture significant market share with its unique formulation.

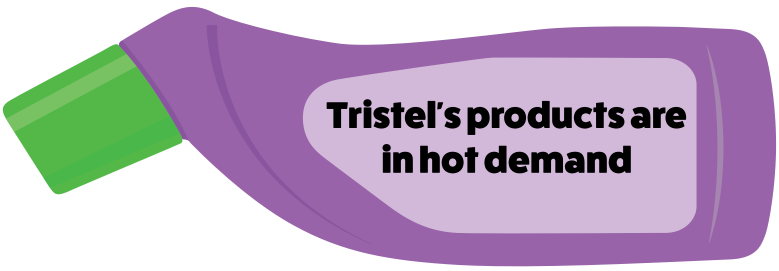
The company developed a number of products and applications for its formulation which is used to disinfect ultrasound probes as well as other medical instruments and hospital surfaces.

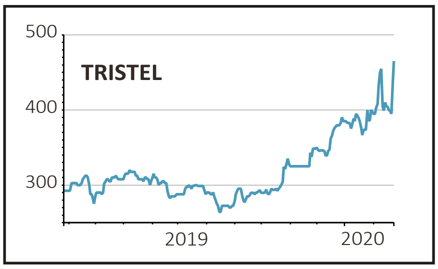
Tristel has delivered a consistent record of revenue, profit and dividend growth since listing in 2005, and is one of only a handful of businesses specialising in infection prevention and contamination control.

The company is very profitable, boasting gross margins of 79% and delivering consistent returns of equity of around 20%, reflecting a high quality business.

This is reflected in the valuation, which at 31.6 times consensus forecast June 2021 earnings per share leaves limited margin for error.

But management have global growth ambitions having established distributors and direct operations across the globe. In December it received approval for a so-called De Novo (New) process from the US Federal Drug Agency (FDA) which provides a pathway to approve novel medical devices.





Buy property developer St. Modwen as it hits a turning point

It is moving away from 'bad retail' and towards high-growth logistics

Now is the time to buy property developer **St. Modwen Properties (SMP)** as it reaches a turning point in its growth strategy.

A brownfield regeneration specialist, FTSE 250 constituent St. Modwen made its name by taking on old, disused sites and turning them into fancy new developments with homes, shops, bars, restaurants and offices.

It has three main areas of focus – the aforementioned strategic land and regeneration focusing on mixed-use developments, as well as industrial and logistics, and housebuilding.

The company underwent a review of its property portfolio a few years ago, with plans to switch away from the struggling retail sector and more into the industrial and logistics sector, which has clear structural growth ahead.

Analysts at Liberum say its full year results to 30 November 2019 show the 'beginnings of momentum' in the firm executing its strategy.

Industrial and logistics assets now make up 44% of its portfolio, up from 33% last year and from 19% when the company launched its new strategy in mid-2017.

ST. MODWEN PROPERTIES BUY
(SMP) 493p
Stop loss: 394.4p

Market value: £1.1bn

Its portfolio repositioning led to an 18.2% drop in reported profit to £49.5m, but underlying net profit for the year increased by 12.4% to £68m, allowing the firm to increase its dividend by 22.5% to 8.7p per share.

CLEAR PLAN TO INCREASE RETURNS

Liberum says: 'From here, there is a clear plan to improve returns on capital as surplus assets are disposed, existing projects are accelerated and management pursues capital light development opportunities.'

It forecasts total returns to 'accelerate' over time, reaching double digits by its full year results in 2021.

Based on Liberum's forecasts the company trades at a 5% discount to its 2020 net asset value per share of 519p, against an average for UK property stocks of 7%.

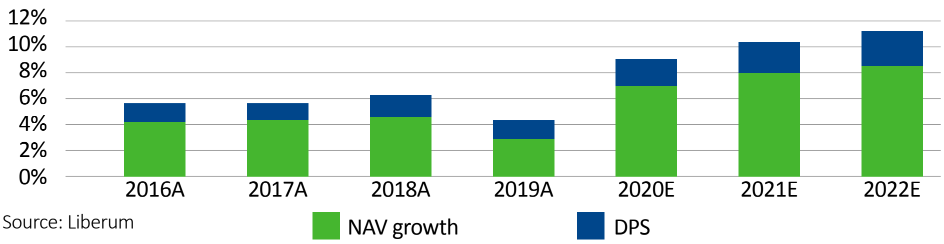
Being a retail developer has weighed negatively on the firm, but so-called 'bad retail', properties such as shopping outlets, now makes up only 2% of St. Modwen's portfolio, down from 16% two years ago.

The company has reinvested the proceeds from the sales of 'bad retail' assets into its development pipeline for projects in the industrial and logistics sector.

There are risks with development, including delays and cost over-runs, and other operators are already bringing through new capacity.

However, this sector still looks be a beneficiary of the growth of online shopping, and the resulting demand for warehousing space, and St. Modwen is well placed to benefit in the coming years.

ACCELERATING TOTAL RETURNS (%)



Source: Liberum

Kepler Trust Intelligence

First among equals

MULTI-MANAGER FUNDS are a popular category with investors and for a reason: the ability to 'fire and forget' by investing in a one-stop investment shop is tempting for those of us without the time, experience and money to repeatedly rebalance our own portfolios.

However, that doesn't mean these seemingly simple vehicles are a panacea. While investors look to these funds to invest across a range of stocks and asset classes, there is a risk that too much diversification can lead to sluggish or muted returns, or leave a fund open to criticism as an 'index-hugger' offering little more than a passive vehicle, but at higher cost.

At the same time, investors in mainstream open-ended multi-manager funds can face a serious downside, in the form of multiple layers of fees. While these funds charge a fee to manage your investment, the underlying funds they own will also be charging a fee. Although multi-managers can negotiate these underlying fees down from their 'street' rate, the cumulative effect can result in charges of 150 basis points or more, which over years of compounding become a serious outlay.

The right tools for the job

There is an alternative option available to investors. Using the advantages of the closed-ended structure the team behind **Alliance Trust** has, since it was overhauled in 2017, created a multi-manager model that counters the criticisms discussed here and seen a significant step up in performance.

The trust avoids being overdiversified by investing in ten portfolios, run by experienced fund managers selected by experienced institutional portfolio provider Willis Towers Watson (WTWT). While each underlying portfolio can have up to 20 stocks in it, this approach avoids the risk of being an overdiversified 'closet tracker' portfolio because each stock has been actively selected by the underlying fund manager as one of their 'best ideas'. Standalone funds are not typically this concentrated, due to liquidity and risk management concerns meaning that they can sometimes risk including stocks outside of a manager's preferred picks.

Managing the risks

The overall risk management of ATST's portfolio is another distinct feature of this approach. WTW keeps up to 20 managers on its 'bench' for possible inclusion at any one time, and constantly monitors the balance of the trust's underlying portfolios, adding managers in when it is deemed necessary to ensure the overall portfolio is not leaning too far towards one style or returns driver.

This means that investors can get exposure to an 'active' returns profile which has also been carefully balanced to try and limit volatility – and means they can avoid being reliant on a single manager, sector, region or style for their investing future.

Keeping costs down

Due to its size and the economies of scale that brings and its efficient management model, using WTW to oversee the management of ATST's underlying portfolios allows the trust to keep its costs down. The trust's OCF is just 0.65%, considerably less than the AIC Global sector simple average of 0.71% (both figures as at 1 January 2020). The comparison by KID RIY is even more striking, with ATST sitting at 1.0%, among the lowest in the AIC Global sector – however, it is worth noting that calculation methodologies vary among companies.

As we discussed earlier, these charges compare very favourably to those on offer from many of the trust's open-ended multi-manager competitors. Indeed, the three largest multi-managers in the UK currently charge upwards of 1.5% in OCF terms, excluding transaction costs.

Click here to read our detailed analysis of Alliance Trust's portfolio and performance

LLOYDS BANKING

(LLOY) 52.55p

WINNING STOCKS FOR 2020

Loss to date: 17.8%

Original entry point:

Buy at 63.93p, 19 December 2019

OUR POSITIVE CALL on **Lloyds Banking (LLOY)** is off to a slow start. However, while full year results (21 Feb) didn't deliver a full endorsement of our view, we do see some signs of encouragement.

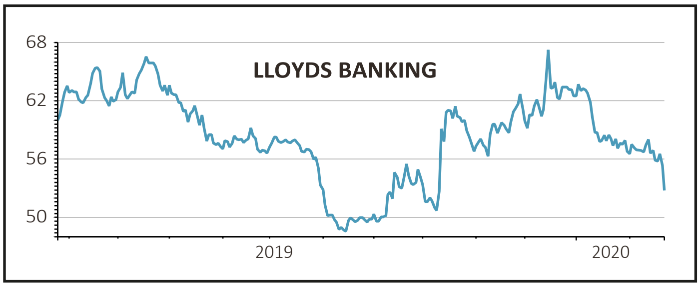
The company's numbers were marred by PPI claims – which totalled £2.5bn for the year. However, three key things lead us to believe that the company's situation could look brighter through the course of 2020.

First the concern which had been building about its balance sheet seemed to be allayed as the company's common equity tier one ratio (a key measure of a bank's ability to weather financial shocks) came in at 13.8%, above expectations.

Management also stuck with its 13.5% target. There was previously concern in the market that this might need to be increased, potentially threatening capital returns to shareholders.

Second Lloyds reiterated its 2020 capital generation targets, underpinning the dividend and providing some hope that share buybacks abandoned at the third quarter stage might be resumed soon.

Finally the business is seeing signs of improvement in the UK economy on which it is heavily reliant – chief executive Antonio Horta-Osorio pointed to 'a clearer sense of direction and some signs of an improving outlook'.



SHARES SAYS: ↗
Keep buying.

HOTEL CHOCOLAT

(HOTC:AIM) 420p

WINNING STOCKS FOR 2020

Loss to date: 0.8%

Original entry point:

Buy at 423.5p, 19 December 2019

ALTHOUGH THE SHARE price has proved volatile, we are sticking with our bullish stance on premium chocolatier **Hotel Chocolat (HOTC:AIM)**, one of our '10 winning stocks for 2020' selections.

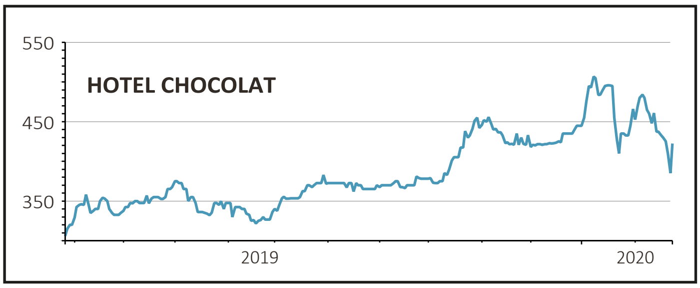
A solid first-half performance (25 Feb) and a positive overseas progress update have only increased our confidence that we've backed a long-term winner.

Reassuringly, Hotel Chocolat is also making great strides with investments and upgrades in a supply chain that recently encountered inefficiencies amid rapid growth from a widening array of sales channels.

Angus Thirlwell-led Hotel Chocolat served up 7% year-on-year growth in first-half pre-tax profit to £14.9m on sales up 14% to £91.7m, reflecting the continued appeal of the brand and ongoing product innovation.

The high-quality company generated a double-digit increase in profitability from its UK estate, bucking the broader high street trend, testament to the strength of the Hotel Chocolat brand, whose products are priced as an affordable luxury.

While new markets in the US and Japan are still in the early stages of development, Hotel Chocolat says 'consumer response to the brand is encouraging, sales are growing, and we believe we have a deliverable plan to achieve attractive returns'.



SHARES SAYS: ↗
We remain buyers of Hotel Chocolat.

CATCHING THE FLIGHT TO QUALITY

By Kristy Fong, Investment Director, Aberdeen New India Investment Trust

- **Global and domestic factors are contributing to short-term volatility, but the longer term outlook remains positive.**
- **Tough conditions and a flight to quality are creating opportunities for companies to consolidate their positions.**
- **The trust is well positioned in the current environment, benefiting from strong domestic consumption themes and companies with good management track records.**

The macro outlook for India remains challenging amid global uncertainties, slowing domestic growth and concerns over certain sectors. There's unlikely to be any real pick-up in the next 12 months and the reforms put in place by the government have been disruptive, albeit we expect the short-term pain will produce long-term gains. It's a tough environment that has its advantages, however, both for the trust and for certain types of companies in India.

Mumbai real estate where quality and reputation is in demand

My most recent visit - which took us to Bangalore, Delhi, Chennai and Mumbai - was particularly informative because companies tend to be much more realistic when the outlook is challenging.

But it was clear that the market remains structurally attractive over the long term and that there are strong companies that will get stronger with each cycle.

We have been able to find companies positioned to take advantage of the current challenging environment to consolidate their markets simply by doing better than their competitors. Some are also benefiting from a flight to quality.

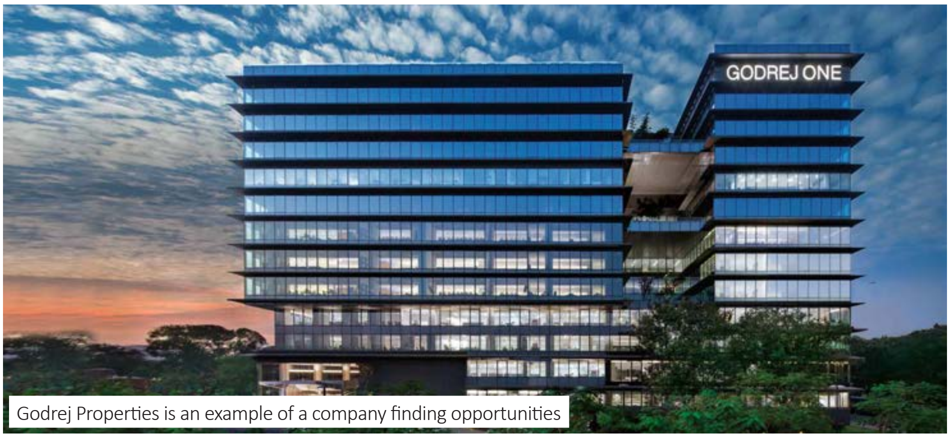
Real estate offers a good example. This is a very difficult sector to be in currently, with a glut of uncompleted projects that has contributed to excess housing supply. But there is a positive theme emerging. While many developers are unable to secure funding, there is still strong demand for those real estate companies with a good reputation for completing high quality projects. With the competition struggling to deliver, there has been a flight to quality companies such as **Prestige Group** and **Godrej Properties**, which have good balance sheets and cash flow and are finding opportunities to buy better assets for cheaper.

A similar theme is developing in banking, where those in strong positions in retail continue to deliver higher than industry growth. India's biggest retail lender, **HDFC Bank**, is benefiting from structural consolidation in the housing and real estate sector. It is also taking advantage of opportunities in the corporate lending space, now that there are fewer banks willing or able to compete.

This environment has been good for the trust in terms of positions. The trust is overweight in consumer staples, banks and life insurance and we've been adding to real estate, but we're still very selective in infrastructure and businesses dependent on the corporate cycle.

All but one of our holdings are private sector enterprises. We have minimal exposure to the index-heavy energy sector as we don't hold Reliance Industries, which has diversified out of its core petrochemicals and refinery businesses to invest heavily in the telecoms and retail sectors.

Instead we will continue to focus on the quality of management teams and look for companies with strong balance sheets and that have a good track record of navigating difficult cycles.



Godrej Properties is an example of a company finding opportunities

Important Information

• The value of investments and the income from them can fall and investors may get back less than the amount invested.

• Past performance is not a guide to future results.

• Investment trusts are specialised investments and may not be appropriate for all investors.

• There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.

• As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.

• The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.

• The Company invests in emerging markets which tend to be more volatile than mature markets and the value of your investment could move sharply up or down.

• Movements in exchange rates will impact on both the level of income received and the capital value of your investment.

• Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.

• For more details on risks associated with investment in the Trust, please refer to the Key Investor Information Document which is available from **www.aberdeen-newindia.co.uk**

Other important information:

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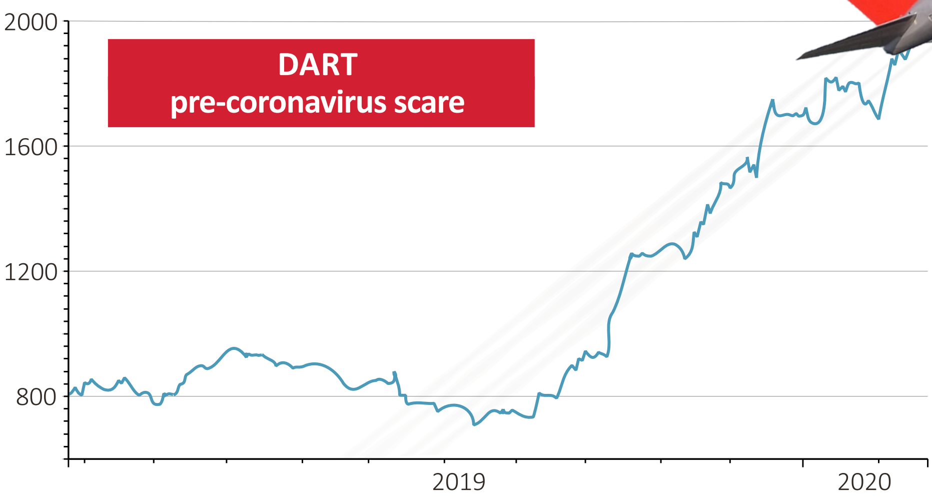
Why shares in Jet2 owner Dart have soared since last summer

The airline and package holiday firm has been a big winner from Thomas Cook's demise



When it comes to beneficiaries from the collapse of Thomas Cook, they don't come much more bigger than Jet2-owner **Dart Group (DTG:AIM)**.

Dart's share price has soared from 888p when Thomas Cook went bust in September 2019 to nearly £20 last week.

Concerns about the impact of the coronavirus outbreak on the travel sector have since pulled it back to £13.34.

CAPITALISING ON THOMAS COOK COLLAPSE

In a trading update three weeks after its rival's liquidation, Dart said it had experienced higher customer demand as a result, leading the firm to state its full year pre-tax profit would 'significantly exceed' market expectations.

Its half year results published a few weeks later – covering the six months to 30 September – also showed a strong business performing well. Revenue increased 16% to £2.6bn, while pre-tax profit moved 2% higher to £339.7m.

This was driven by an 8% increase in flight-only customers to 4.75m passengers and a 17% increase in package holiday customers to 2.71m.

WHAT DOES IT DO?

Jet2 is the second largest package holiday operator in the UK by market share, behind only **TUI (TUI)** which took 5m Brits on package holidays last year.

Unlike its debt-laden competitor, another reason Dart is so popular with investors is the fact it had £291m in net cash at the end of the year to 31 March. And given it operates online only, it doesn't have to incur costs associated with an estate of physical stores.

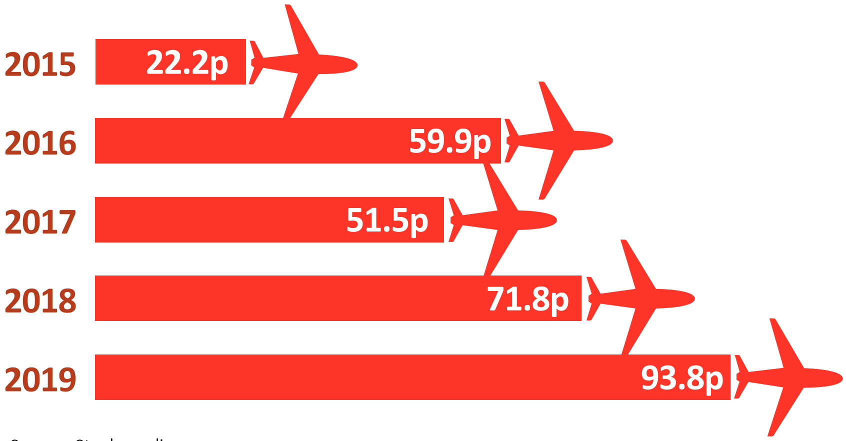
Significant aircraft seat capacity had been lost in the market following the bankruptcy of Thomas Cook, which provided around 1.5m seats between April and September last year on short-haul flights to Europe from the nine UK bases where Jet2 operates. This compares with 5.4m Jet2 seats and 2m TUI seats.

The remaining players subsequently increased their capacity. According to analysts at Canaccord Genuity, based on current flying programmes Jet2 and TUI will have a short-haul seat capacity this summer of around 6m (up 10%) and around 2.2m (up 13%), respectively, on routes from Jet2's nine UK bases.

That means that only around 50% of Thomas Cook's summer 2019 short-haul seat capacity is expected to be replaced with additional seats from Jet2 and TUI.

Spain remains the most important for Jet2, accounting for about half its seat total.

DART GROUP EARNINGS PER SHARE



Source: Stockopedia

GETTING BUMS ON SEATS

What has also helped Jet2 is a lack of competition on some routes, with only 40% of Jet2's seats on routes which directly overlap with its main rival TUI.

When added to the fact that Jet2 is better than all barring **Ryanair (RYA)** at filling seats on its planes, with its passenger load factor reaching its highest ever level at 92.8% in the year to 31 March 2019, it's clear to see why the firm has been so good at taking advantage of its rival's collapse.

In fact, Jet2's passenger load factor has increased from 72% in 2008, before it started selling package holidays, to remain at more than 90% in every year since 2014.

By comparison, British Airways owner **International Consolidated Airlines (IAG)** on 9 January reported a load factor of 84.6% for 2019.

Though it's worth pointing out budget airlines, because they offer cheaper flights, are better at filling seats on planes than 'premium' airlines like British Airways, KLM and Lufthansa.

RAZOR SHARP FOCUS ON TARGET MARKET

One of the main reasons Dart has been able to fill seats on its planes and grow as it has done is because it knows its target market so well.

Having realised in the early 2000s that there was a lack of cheap flights from the north of the UK to mainland Europe, the company launched Jet2 in February 2003, with its first flight going from Leeds Bradford Airport, where the company is currently headquartered, to Amsterdam.

Among its nine UK bases, only one – Stansted – is in London with the other eight in airports like Birmingham, Manchester, Newcastle, Leeds, Edinburgh and Glasgow.

Dart also tries to tap into what its customers are looking for. This was reflected in the recent launch of Vibe by Jet2holidays, which targets 'millennial mindset' holidaymakers who want to experience more than a typical 18-30s overseas holiday.

The 'party vibe' is still there if they want it, but holidaymakers can also choose a 'pure vibe', 'chilled vibe' or an 'iconic vibe', a package holiday which also offers gig tickets for A-list artists.

FORGOTTEN LOGISTICS ARM

It is very easy to forget Dart has a distribution and logistics business called Fowler Welch.

It's a lot less sexy than selling sun-kissed holidays to Ibiza but the division, which does supply chain logistics for ambient and temperature-controlled produce, has also been chugging along nicely with a 23% increase in pre-tax profit in the half year to 30 September 2019.

However, its contribution to Dart's overall business remains small. That 23% increase drove the division's profit to £2.7m, compared to the £339.7m pre-tax profit made by the group overall. The division delivered half year revenue of £86.4m.

Fowler Welch may seem an odd fit for Dart given it's very different to package holidays, but the group started out in the 1970s as an air services business flying flowers in contracted aircraft from Guernsey to mainland UK.

The travel sector faces substantial risks in the near-term from the coronavirus and this is beginning to be priced in by the market, on top of the usual pressures facing airlines including volatile fuel costs and currency movements.

Dart is very attractive as a business yet there are too many risks for the share price to think about buying now. This is one to watch and only consider buying once the coronavirus has been contained.

By **Yoosof Farah**
Reporter

WHY SHOULD INVESTORS CONSIDER EXPOSURE TO GOLD IN THEIR ISA?

For thousands of years, gold has been considered an object of beauty, a currency, a commodity, and an investment. In the past, the alluring metal has motivated entire societies and inspired some of mankind's greatest achievements. Interest in gold remains alive today and its appeal as an investment has significantly increased recently as investors have recognised the value it can add to a portfolio.

Wealth Preservation

Gold is considered an excellent 'store of value' because it is physically attractive, durable, easily exchangeable, yet also quite scarce. Since the Global Financial Crisis, concerns have grown that 'fiat' currencies[1] are being devalued by the accommodative policies of central banks who can print notes at will. However, gold can only be created from mining activity. Many investors have therefore turned to gold to hedge themselves against currency devaluation and to preserve their purchasing power over time.

Safe-Haven Status

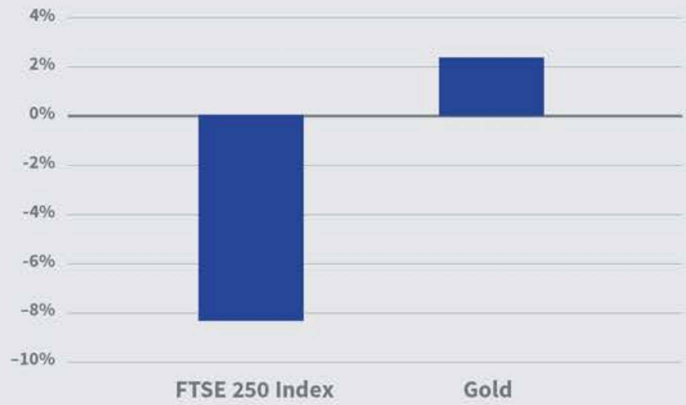
Gold is also viewed as a 'safe-haven' asset, meaning that during periods of economic uncertainty or heightened geopolitical risk, investors have historically turned to the precious metal for protection, pushing its price up. As such, gold can act like a form of portfolio insurance and help provide downside protection during market turmoil.

Portfolio Diversification

Gold also has a low correlation to other asset classes. It therefore provides diversification benefits and potentially improves the efficiency of portfolios, something that is most visible in falling equity markets. The chart below shows that between January 1990 and January 2020, in the worst 36 individual months of performance for the FSTE 250 Index, stocks fell by 8% on average whereas gold rose by 2%.

[1]Fiat refers to currency that a government has declared to be legal tender, but it is not backed by a physical commodity.

GOLD PERFORMANCE WHEN UK EQUITIES ARE PERFORMING POORLY



Data source: Bloomberg. All assets in GBP unhedged. The FTSE 250 Index is a capitalisation-weighted index consisting of the 101st to the 350th largest companies listed on the London Stock Exchange. Gold is the spot price on Bloomberg. Data from January 1990 to January 2020 using monthly performance. Average performance of both assets in the worst 36 individual months of the FTSE 250.

Historical performance is not an indication of future performance and any investments may go down in value.

Inflation Hedge

Finally, gold can also be an effective hedge against inflation, as it has historically performed well during periods of high inflation. When inflation is high and the purchasing power of money is being eroded, investors tend to seek out 'hard assets' like gold for protection, as they are considered to have intrinsic value due to their finite supply. Gold prices often rise when inflation is rising.

- **To learn more about investing in gold, please visit:** [WisdomTree.eu/Gold]
- **To access a list of relevant gold products within the AJ Bell Youinvest platform, please visit:** [AJ Bell Youinvest - Gold]

Scottish Mortgage boss on big opportunities as shares hit record high

The investment trust's patience with biggest holding Tesla has been rewarded

Shares in £9.6bn investment trust **Scottish Mortgage (SMT)** are trading at an all-time high of 659p, thanks in part to the soaring success of electric vehicle maker Tesla which is the largest holding in its portfolio.

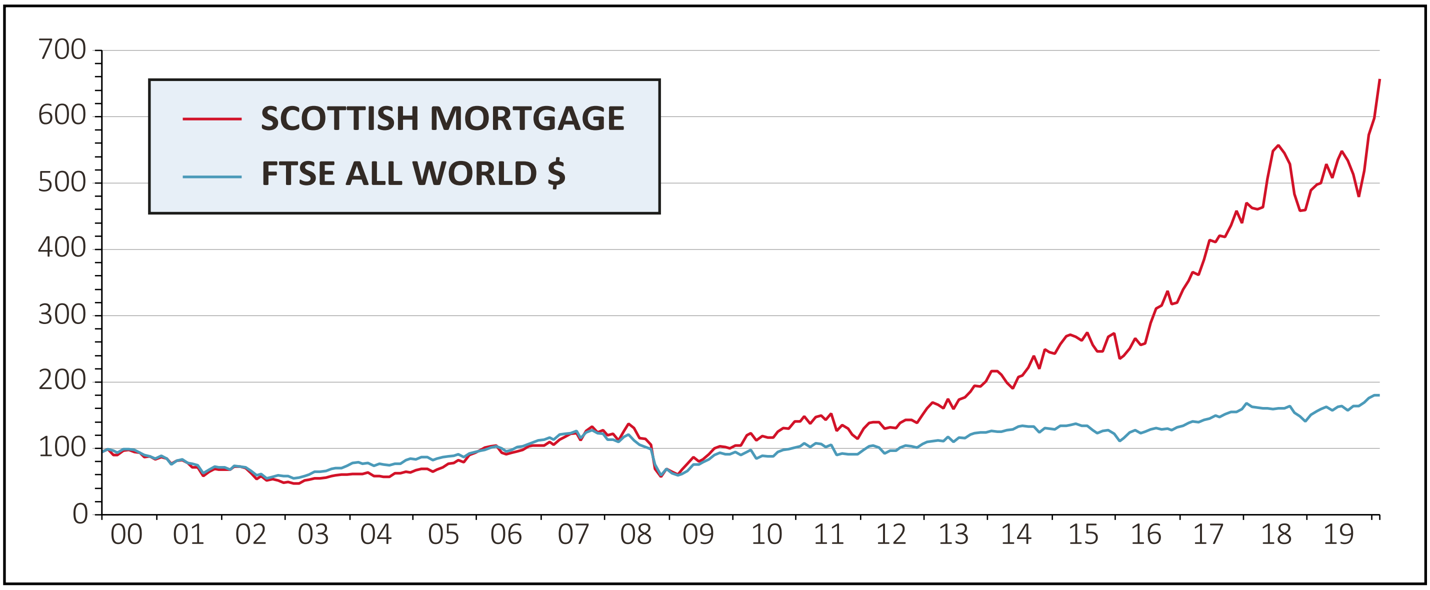
Tesla's share price has gone up by 119% so far this year as investors react positively to production numbers and signs that it could be close to making an annual profit. Also contributing to Scottish Mortgage's march upwards have been share price rallies in other key holdings including retail giant Amazon, Google's parent company Alphabet, streaming provider Netflix and food ordering platform Delivery Hero.

HOW MUCH HAVE INVESTORS MADE?

It wasn't long ago that Scottish Mortgage talked about a period of underperformance in its half-year results (8 Nov 2019), with net asset value growth of 3.2% versus 9.9% from the FTSE All-World index for the six months to 30 September.

In those results the trust made it very clear there would be periods of underperformance. After all, it is extremely rare for a fund manager, or even a private investor, to consistently achieve market-beating results.

Picking the right assets and being patient is the key to long-term investing success and Scottish Mortgage has a superb track record of rewarding



its investors. In the 10 years to 30 September 2019 its net asset value had increased by 415% against 204% for the FTSE All-World index – so more than double the return.

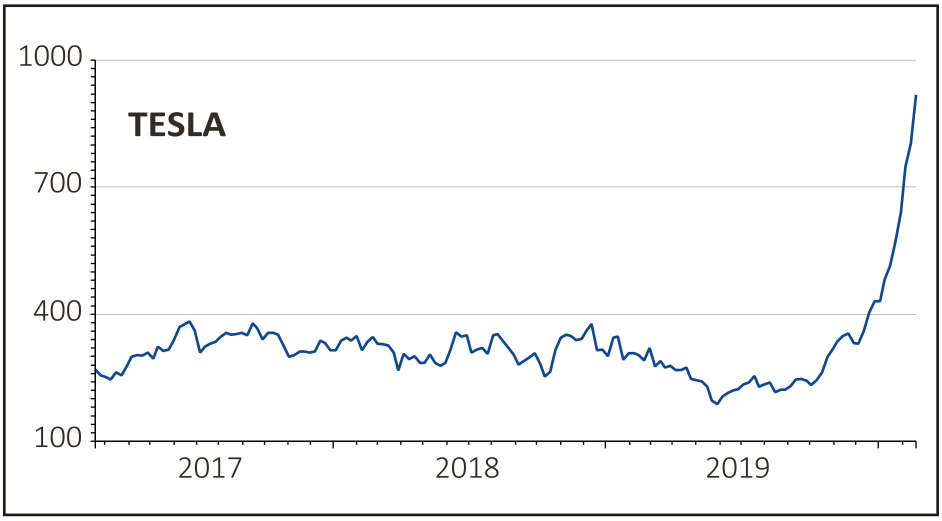
HOW WOULD YOU SUMMARISE SCOTTISH MORTGAGE?

The trust describes itself as a way for investors to access the world's most exciting growth companies. It is quick to shoot down suggestions that it is a technology fund; instead, the trust says its approach is to look at companies *enabled* by technology.

Its strategy is to identify companies which it believes have the potential to be much greater in size in the future thanks to having a proposition which is scalable and could be market-leading in time. It still holds on to these investments once investee companies become market leaders.

'We never buy a stock in the belief that we won't hold it for a long time,' says James Anderson, co-manager of Scottish Mortgage. 'Companies that are successful these days have a greater probability of more success, so we think very carefully about cutting back exposure.

'With digital businesses you tend to have a period where there is a battle over establishing the market. You then find out who is leading it and very often the valuation will go up. At that point the probability and scale of your success rise very sharply and often we find ourselves increasing our position (in the stock) at that point.'



WHY IS TESLA SO IMPORTANT?

Scottish Mortgage has come under a lot of fire in recent years for having such a large position in Tesla. Many cynics say the business is overvalued, is burning through cash, and won't be the market leader in electric vehicles. All the time Scottish Mortgage has remained supportive of the business and now it is having the last laugh given how Tesla's share price has soared.

'Tesla has been profoundly misunderstood,' says Anderson. 'That bothers me in the sense that our media and investment landscape prefer to obsess about failure than celebrate potential success on a huge scale. I always think it would be better for the world that Tesla succeeded.'

The fund manager says he first bought shares in Tesla seven years ago when they were trading in the mid-$20s. They are now trading at $917.

'At one level (when we first invested) the company had already obtained a lot because you could see that they had managed to make a car that was electric which was competitive

"Tesla has been profoundly misunderstood"

James Anderson, Scottish Mortgage

with the external, traditional car industry. By demonstrating that, it was further on than people thought it was.'

WHY IS AMAZON IMPORTANT?

Scottish Mortgage has been invested in Amazon for even longer, having first bought in 2004. Assuming no change to the reported position of 541,480 shares at the end of 2019, the trust's stake in Amazon is now worth £911m which is just under 10% of its whole portfolio. That means Amazon's performance will have a major influence on the direction of the investment trust's shares.

When he first bought into Amazon, Anderson says people were still worried about its financial sustainability as well as its business model more generally.

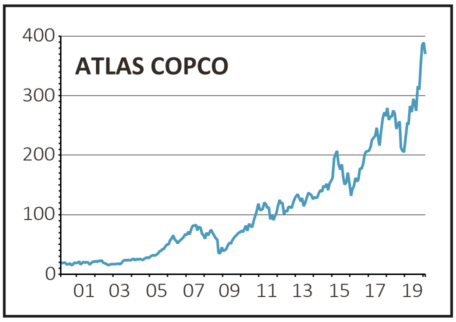
'We look for huge opportunities that are almost unimaginable in their scale, certainly how they are perceived at the time.

'We could see that Moore's Law was enabling Amazon to have a much greater set of opportunities than was once thought and on Tesla's side progress in battery technology and in solar technology was enabling Tesla to have greater opportunities.'

Moore's Law states that processing power for computers should double every two years. As for Tesla, the market often underappreciates the fact that the business is more than just electric vehicles – it also has a solar power and storage battery business.

IS IT ONLY ABOUT TECH?

Despite a lot of focus given to Scottish Mortgage's disruptive company investments, there are a few names in the portfolio which have a much longer heritage. They include 147-year-old Swedish industrial company Atlas Copco whose activities include generators and pumps. Anderson is particularly enamoured with how the company has made a name for itself with air compressors for semiconductor and electronics production.



'They've done an astonishing job in generating real growth and real change to the business, with brilliant people running it,' he says.

Ferrari also sits in the portfolio, with Scottish Mortgage having originally invested when it was part of Fiat Chrysler. The fund manager said he became a 'devoted follower' of the late Ferrari boss Sergio Marchionne and believes he was 'as much of a genius as the people we talk

about more commonly with US or China market disruption'.

Anderson says many fund managers make the mistake of spreading themselves too thinly, namely investing in too many companies so that the portfolio cannot be managed properly. He prefers to limit Scottish Mortgage's portfolio to no more than 100 holdings.

Anderson and his co-manager Tom Slater whittle down the investment universe by only focusing on companies that are run by inspirational entrepreneurs and where there is a very large opportunity for the business to grow.

DOESN'T IT INVEST IN PRIVATELY-OWNED COMPANIES?

A small chunk of the portfolio contains unquoted companies, namely businesses which aren't listed on a stock market. For Scottish Mortgage to crystalise any value creation from unquoted investments it would need to find a buyer for its holdings privately or wait until a business lists on a stock market so it can freely trade the shares. However, remember that it likes to hold on to investments for a long time, so don't think that a stock market listing is the point at which it would necessarily get out.

Several unquoted investments in the portfolio are expected to float on a stock market in the near future including accommodation platform Airbnb; Ant Financial which is a subsidiary of Chinese internet giant Alibaba; and ByteDance which owns the social media phenomenon that is TikTok, a video-sharing service.

Companies often see their valuation increase when they join the stock market as a wider pool of investors bid to own the shares. It also means a company has to be more transparent about its actions and financial accounts.

HIGH HOPES FOR SPOTIFY

Music and podcast streaming platform Spotify was an unquoted business when it joined Scottish Mortgage's portfolio and is now listed on the New York Stock Exchange. Despite a few ups and downs along the way, Spotify's shares are now trading almost at the same price as when it hit the market in 2018. However, the business does appear to be gaining traction with nearly half of all users now paying a subscription fee.

'It is incredible how little the whole spoken word is valued by the stock market relative to what we do on our on screens,' says Anderson. 'I think Spotify has a manager and founder who is playing a really long term game and really believes the whole structure of the industry needs to change.

'We've been increasing our stake but we are not convinced the stock market will recognise the transformation of the industry in the imminent future.

'We are extremely confident that in 10 years' time Spotify's importance relative to the (record) labels and its role to artists and podcasts will be enormously greater than it is now. We think adding at this sort of share price is a very good thing to do for the long term.'

LISTEN TO OUR PODCAST FOR MORE INSIGHT INTO SCOTTISH MORTGAGE

Don't miss [this episode]() of the Shares / AJ Bell Money & Markets podcast as it contains an exclusive interview with Scottish Mortgage fund manager James Anderson. He gives more information on Tesla and Amazon, as well as discussing hot topics such as the impact of the Coronavirus on companies in the portfolio.

SHOULD YOU INVEST IN SCOTTISH MORTGAGE?

The answer is 'yes' if you have at least a five-year time horizon and can be patient. It perhaps isn't suitable for people in the latter stage of retirement as most of the returns will come through capital gains rather than income. However, for everyone else happy to risk some of their money then it is a very attractive investment proposition.

Scottish Mortgage has been a very successful investment for a long time and we see no reason why this should change. We view it as an essential holding for a diversified portfolio and an excellent choice for regular investment, putting money in every month.

By **Daniel Coatsworth**
Editor

WHICH ISA IS RIGHT FOR YOU?

How to save and invest without losing to the taxman

By the *Shares* team

ISAs are one of the greatest inventions in the world of saving and investing. The ability to hold your money in a wrapper that is free of tax on capital gains and dividends is a wonderful thing and everyone should make the most of them each year.

There are six types of ISAs which is arguably too many. We would welcome ISA simplification by reducing the number on offer. Until that happens, it is worth understanding how each type of ISA differs from the rest and how they are best used.

In this article we look at five of the six ISAs in detail, how much you can put into them each year, and suggest a few investment products that might suit people in certain situations. We've ignored the Help to Buy ISA for this article because it is no longer open to new applications and is a cash-only product that's fairly simply to understand.

HOW TO USE A LIFETIME ISA

AUNT MABEL, 39, and her niece Maggie, 18, have heard about the Lifetime ISA and want to take advantage of the free Government money it offers so they can meet their savings goals.

With one eye on retirement, Mabel wants to enhance her savings while Maggie wants to buy her own flat in three years' time when an inheritance is paid out on her 21st birthday.

They plan to use the Lifetime ISA, which can be opened by people aged between 18 and 39.

You can put up to £4,000 a year into a Lifetime ISA until you turn 50, with the Government adding a 25% bonus to your savings up to a maximum of £1,000 a year. You can put the money into either a Cash Lifetime ISA or Stocks and Shares Lifetime ISA.

A saver who puts £4,000 every year into a Lifetime ISA from the age of 18 until they are 50 will get a total bonus of £32,000 from the Government, before any interest or growth.

For Maggie, her inheritance alone won't be enough for a deposit on a flat but she could get there by using the Lifetime ISA to save. However, as she only has a three year goal to save Maggie is best off avoiding the stock market and putting the money in a Cash ISA instead of a stocks and shares one, so she can take advantage of the 25% bonus while safe in the knowledge her savings pot won't go down.

A stock market cycle typically lasts around five years, so three years may not be enough time to recover from any bad periods in the stock market.

Because Mabel has a much longer timeframe she has more options available. Anyone using a Lifetime ISA can only withdraw their money without incurring a 25% charge if buying their first home, aged 60 or over, or are terminally ill with less than 12 months to live.

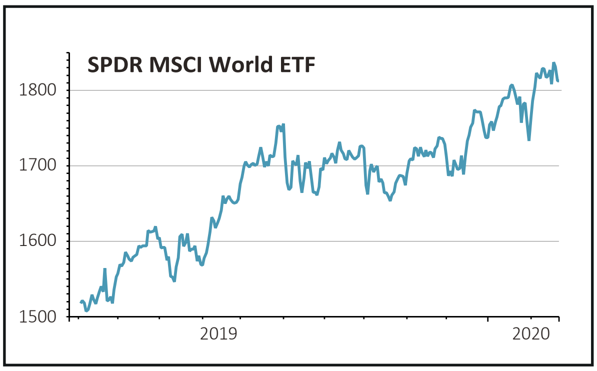
Mabel & Maggie

Mabel still has a mortgage and bills to pay, so can only afford to invest a small amount of her monthly income.

A good way for Mabel to get started would be drip-feed investing, where she puts small amounts of money into a Lifetime ISA every month.

Given her long timeframe, she can afford to take a few more risks so may want to invest entirely in shares now and potentially add some bond exposure in 10 years' time.

A cheap tracker fund providing very broad exposure to companies around the world might suit such as **SPDR MSCI World ETF (SWLD)** which has a very low annual charge of 0.12%. It's an ideal product for regular investing every month, particularly for individuals who don't have the time or inclination to monitor the markets all the time.



HOW TO USE A JUNIOR ISA

GRAHAM AND POPPY are both 35 years old and want to start saving for their newborn child David. Since they have 18 years to make the money work for their new arrival, they plan to invest regularly into a Junior ISA, as well as topping the account up with any birthday and Christmas money that comes in. They are happy to take some risk as time is on their side.

Parents or guardians with parental responsibility can open a Junior ISA and manage the account, but the money belongs to the child. Up to £4,368 can be paid in each year. The child can take control of the account when they're 16, but cannot withdraw the money until they turn 18.

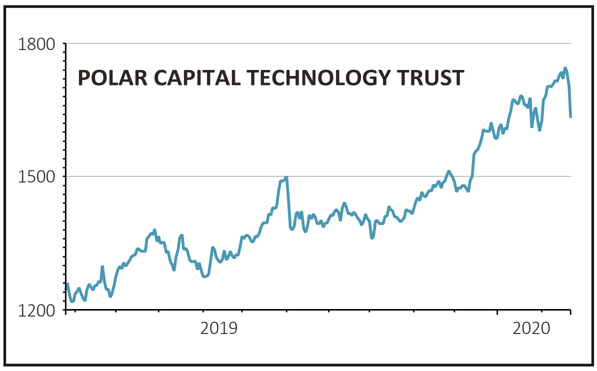
Proud parents Graham and Poppy can either choose a Cash Junior ISA or a Stocks and Shares Junior ISA. A lot of people opt for Cash Junior ISAs, which are essentially tax-efficient savings accounts, because they are often worried that shares can rise and fall in value over the short term. Yet history tells us that shares provide a greater return than cash over the long run.

For Graham and Poppy, a tax-efficient Stocks and Shares Junior ISA is well worth considering for David. Grandparents, other family members and even friends can pay into the Junior ISA as well.

Graham & Poppy

Graham and Poppy lead busy lives and aren't especially confident about selecting individual shares for the Junior ISA and would prefer to let a fund manager do all the hard work, even though that means paying a small ongoing charge. They like the idea of using a fund manager in the belief that this individual could beat the market. They want to make as much money as possible for David and are happy to research a range of actively-managed funds.

One product they should consider is **Polar Capital Technology Trust (PCT)**. Fund manager Ben Rogoff has a great track record of identifying opportunities in the tech space and this sector has the potential to deliver turbocharged returns for David. Graham and Poppy should understand that investing in the tech space can be quite volatile and so there could be times when the shares are experiencing wild swings.



HOW TO USE A CASH ISA

MARY IS A 40-year-old single mother of two (aged 13 and 17) working in the purchasing department of a building firm. She has cash savings of about £13,000 from the sale of a holiday home and is thinking about putting the lump sum into a Cash ISA for back-up savings or potentially university costs given her eldest isn't that far away from doing a degree course, although they are still uncertain about wanting to go.

She already has a separate pot of cash set aside for emergencies like a broken boiler or things going wrong with her car. Mary also has an investment ISA through which she invests in various tracker funds and ETFs to bolster her retirement savings.

Mary is willing to tie up the £13,000 cash for one year through a fixed-rate deal but is reluctant to lock the money away for too long in case interest rates begin to rise and she loses out.

A Cash ISA would be attractive for Mary for the simple reason that she will never have to pay tax on the income generated by her savings in that wrapper. Up to £20,000 can be deposited in a Cash ISA each year.

Rates will be low for either a fixed-rate savings account or a Cash ISA. At the moment the best she could get is 1.65% for a one-year fixed savings account from Atom Bank, 1.31% for an easy-access Cash ISA from Virgin Money, or 1.41% for a one-year fixed Cash ISA from OakNorth Bank.

Mary

So £13,000 into the Atom Bank account would generate £214.50 interest before tax or £183.30 interest tax-free from the OakNorth account.

There is barely any difference between the returns from two accounts which is a sad reflection of how hard it is to make a decent return on cash at present.

Mary might be better off reassessing her situation in a year's time to decide exactly what she wants to do with the money. If her child goes to university then clearly she is well placed to be able to help pay for it. Yet if they don't want to continue studying it might be worth investing some of the £13,000 pot in the market in the hope of making a much better return over time. In such circumstances, Mary must understand the extra risks involved of investing and accept that the value of her cash pot could fall if investments don't work in her favour.

She's fortunate to already have some emergency savings – anyone not in that situation should certainly consider putting cash to one side before investing.

"Mary already has a separate pot of cash set aside for emergencies like a broken boiler or things going wrong with her car."

HOW TO USE AN INNOVATIVE FINANCE ISA

ADAM IS IN his mid-thirties and has accumulated some spare cash through prudent spending and regular saving. He has heard of peer-to-peer lending and wants to find out if the Innovative Finance ISA is something he should consider.

Up to £20,000 a year can be put into this form of ISA which is used for holding peer-to-peer lending investments.

The seductive idea for peer-to-peer lending is that by cutting out the big banks you can potentially earn a higher rate of interest than a traditional bank account or Cash ISA.

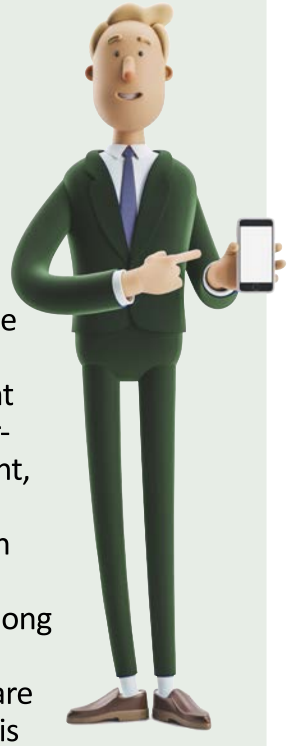
A peer-to-peer lending platform will take applications from borrowers and perform credit checks, rejecting around 80% of them. If successful, Adam's money would be parcelled into small units and lent out to a broad spectrum of borrowers, so that the maximum exposure to any one borrower is low, usually around 1%. Money can be lent to businesses as well as individuals.

Should any investment go sour, Adam stands to lose his whole investment minus any amounts recovered. In return for taking the risk, he might earn 3.5% to 6%, or potentially more. The platform provider's fees, usually around 1%, are included in the projected return.

Actual returns can differ from 'headline' projected returns that you might see on the marketing literature.

Adam should expect to lock his money away for at least three years and there are no guarantees for returning all of his money back.

Adam



It is worth pointing out that, unlike Cash ISAs, money in an Innovative Finance ISA is not protected by the Financial Services Compensation Scheme whereby up to £85,000 is guaranteed by the Government in the case of bankruptcy. Peer-to-peer lending is an investment, not a savings scheme.

In addition, again unlike Cash ISAs, access to money is not immediate and it could take a long time to get cash back.

Adam would need to be aware of the heightened risks with this part of the market. Last year's collapse of peer-to-peer lender Lendy demonstrates the risks involved which left thousands of investors facing losses of close to half of the £152m they invested.

In addition projected returns are not a guarantee and it's very possible that the actual yield that Adam receives will fall short of his expectations, because the assumed default rate is underestimated.

Think about it this way, if junk bond (very high risk) yields are around 3% and you are offered the prospect of earning 5% or 6%, the peer-to-peer investment probably involves taking considerable risk.

"Peer-to-peer lending is an investment, not a savings scheme"

HOW TO USE A STOCKS AND SHARES ISA

RICHARD, 52, IS married to Alison, 45, and works as a factory supervisor. He has been over-paying his mortgage for several years as he understands that paying off his debt early can save him money in the long run.

With interest rates likely to stay low for some time, Richard now wants to reduce his mortgage payments and increase contributions to his ISA to maximise his full allowance.

Richard hopes to retire at age 60, which gives him eight years to build up his pot so that he can make the most of tax-free withdrawals from the ISA in the early stages of retirement before dipping into his actual pension.

He has a medium appetite for risk and wants to accumulate as much capital as possible, which is why he opted for a Stocks and Shares ISA instead of a Cash ISA.

ISA allowances have grown in recent years and now every adult has a £20,000 annual limit for a Stocks and Shares ISA. Richard could encourage Alison to make the most of her allowance as well so they both maximise the benefits of ISAs to the combined tune of £40,000 each year for the next eight years, subject to them earning enough money.

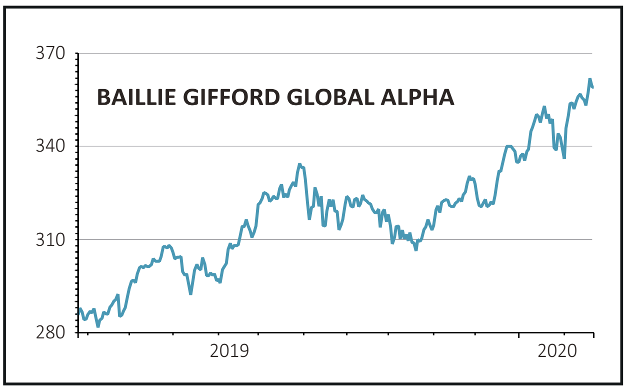
As Richard wants his capital to build up and doesn’t want to take any dividends, if he buys an open-ended fund he should make sure he chooses the ‘accumulation’ version so that his dividends are automatically reinvested. Look for the letters ‘acc’ in the product name to find the accumulation version. Thanks to compounding, his reinvested dividends will give his existing capital an extra boost each year.

Richard

If Richard opts for shares or investment trusts, he should tick the box on his provider’s platform allowing him to automatically reinvest any dividends. In most cases investors have to ‘opt in’ to choose to reinvest their dividends.

When choosing a trust or a fund it’s important to look at ongoing charges. A fund with high fees will eat into Richard’s returns a lot quicker than one with low charges.

Spreading investments across countries is a good strategy for the long term, so Richard should think about including a global fund in his selection to diversify his risk. A good choice is **Baillie Gifford Global Alpha (B61DJ02)** which has an ongoing cost of 0.6% and has investments around the world, half of which are listed on a US stock exchange. Key holdings include retail group Amazon, payments network MasterCard, health insurance provider Anthem and media group Naspers.



Opening an investment account and making your first transaction

Getting started with investing is a lot easier than you might think

This is the third part of our series aimed at people new to investing. Parts one and two looked at why you should consider investing, how much you might invest and the benefits of starting as early as you can.

In this article we will explain how to kick your investment journey into gear by finding an investment platform. We also talk through the mechanics of buying and selling funds and shares.

CHOOSING AN INVESTMENT PLATFORM

Once you're convinced that investing is right for you, it's time to open an account with an investment platform that suits your needs.

It is considerably easier (and cheaper) to invest online than over the telephone, so for most people this will be the obvious route.

There are number of factors to consider when choosing a platform provider. Cost is one – dealing costs of £10 or less are now commonplace on individual shares and are often significantly lower for funds.

AJ Bell Youinvest charges £1.50 to buy or sell funds online, £9.95 for shares or £4.95 if you trade them more regularly. Investment trusts and exchange-traded funds are categorised as shares when it comes to charges.

You can consult the provider's website to get a handle on the different charges you will face when investing in shares and funds. This will also include a fee for holding your investments, typically called the custody charge, and is levied on a quarterly or annual basis depending on who you use.

For AJ Bell Youinvest customers using a Stocks and Shares ISA the custody charge amounts to 0.25% of the value of your shares up to a maximum of £7.50 per quarter. For funds the charge is the same for holdings up to £250,000, with a sliding scale heading downwards based on the size of your fund holdings thereafter.

It is not simply about cost, you also need to consider the levels of support you will receive in terms of investor education and customer care.

We will look at the costs of investing in more detail in the next part of this series.

WHAT IS THE DIFFERENCE BETWEEN EXECUTION-ONLY, DISCRETIONARY AND ADVISORY?

The decision on which platform to use will be dictated by how you plan to approach investing. For most of us this will involve an execution-only service.

This is the cheapest option available and under this remit a provider will buy or sell according to your instructions without providing any form of advice. You would choose all the investments yourself.

The polar opposite is the discretionary account where all the decisions are taken by a stockbroker or a wealth manager, who might also manage other aspects of your finances. This involves incurring significant charges.

An advisory account sits in the middle – you receive a certain amount of advice but the decisions are left up to you. This advice also comes at a price and for investors looking to build small or simple portfolios it is difficult to justify the extra cost.

In the last decade robo-advisors have emerged which offer an online portfolio management service which uses algorithms to produce recommendations based on your answers to various questions. However, because these are relatively new they have limited track records and some people still prefer more of a human element when investing. Several of these services have been closed down after failing to attract enough investors.

It certainly makes sense to invest through a Stocks and Shares ISA in order to keep your returns out of the hands of the taxman. You can invest up to £20,000 a year in a Stocks and Shares ISA and you don't have to pay any tax on capital gains and dividend income for investments kept inside the wrapper.

It's also worth considering putting as much as you can into a pension, assuming you don't need the money until age 55 at the very earliest. You can pay the equivalent of your earnings into a pension each year, up to a maximum of £40,000 and benefit from tax relief at the rate at which your income has been taxed.

WHAT IS A NOMINEE ACCOUNT?

If you're buy and selling shares online via an execution-only service you will almost certainly be investing through what is called a nominee account. In effect this allows you to own shares without added complications and paperwork. The platform will hold the shares on your behalf. Legally you still own your investments but your name will not appear on each investee company's share register.

WHICH ACCOUNT DO I PICK?

Once you've done your research and picked a provider you can open an account. Go to your chosen provider's website and select the investment account which is most appropriate for you, such as a Stocks and Shares ISA, Lifetime ISA, Junior ISA or SIPP (self-invested personal pension) and click to open one.

The process is straightforward and can take as little as 10 minutes. Typically you will be asked to provide:

- Your address details for the past three years
- Your debit card details
- Your telephone number
- A valid email address in order to receive your account confirmations by email
- Your National Insurance number

Once you have completed the online form you need to have a spin through some documentation. Assuming your application is successful you will receive your account number at the end of the process.

APPS CAN MAKE IT SIMPLE

Just as increasing numbers of people use apps on phones to do day-to-day banking, the same is possible with investing.

Most providers will allow you to buy and sell stocks and funds over their apps and they will also enable you to easily keep track of your portfolio and how it is performing.

Just remember investing is a long-term exercise and you should not get too caught up in daily fluctuations in the value of your holdings.

SETTING UP A REGULAR INVESTMENT

Landscape architect Martin, 40, has done some work on his finances, freeing up an extra £80 worth of cash per month. Sick of the low rates of interest on savings accounts he decides he wants to invest in the markets for the first time with this money.

He creates an account with his chosen provider and sets up a direct debit to regularly fund it with £80 a month. With the aim of keeping costs down he decides to use an exchange-traded fund covering a global index to get diversified exposure to shares.

He finds a suitable product on his provider's site which is eligible for regular investment. From his account page he clicks on the regular investment tab and selects to invest £75 per month, leaving some cash left over from the direct debit to cover transaction and custody charges.

Now you're ready to start funding your account – which you can do by transferring a lump sum from your bank account using your debit card. Alternatively you could set up a direct debit to regularly fund your account.

Once the cash is in your account you're ready to invest. Often more inexperienced investors will start with funds and we think that is the correct approach to take as you benefit from diversification rather than risking all of your money on one or a handful of individual companies. A fund will have a portfolio containing lots of different things so if something goes wrong with one of them, the rest of the portfolio should act as a cushion and stop you experiencing big losses.

You can buy and sell when you want or use a regular investment service where you pay a reduced transaction fee to invest on a specific day each month. The investment platform will group your order(s) with ones placed by other investors and do everything in one go, thereby reducing its own trading costs.

EXECUTING AN ORDER

For a one-off investment you will start by clicking on the deal or trade button. This places an order which is an instruction to buy or sell your chosen investment.

You need to have enough cash in your account to fund any regular investments and charges. If you don't then small bits of existing investments could be sold to pay these fees.

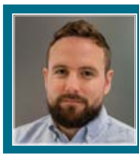
With funds you will select how much you want to invest. They can take a few days for the order to be processed and completed. Before you trade you will need to confirm you have read the necessary information about a fund including the Key Investor Information Document (KIID). This is a short document that

> if something goes wrong with one of them, the rest of the portfolio should act as a cushion

provides important background about a fund which can help you decide if it is a suitable investment for you.

For a share transaction you will be provided with a time-limited quote to buy (or sell) at a certain price, reflecting the fact that share prices move around all the time. You can either select how much money or how many shares you want to trade. You will then be shown the total cost of the transaction.

Disclaimer: AJ Bell is the owner and publisher of Shares. The writer Tom Sieber and the editor of this story Daniel Coatsworth own shares in AJ Bell.



By **Tom Sieber**
Deputy Editor

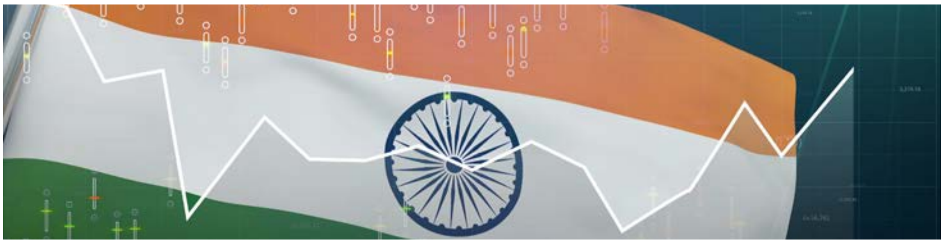
A SHARE TRADE IN ACTION

Employed by a large IT firm, 35-year-old Maria recently received a promotion. She already has some cash savings tucked away and some funds in a Stocks and Shares ISA. Having gained some experience and knowledge of the markets, she plans to use the increase in her disposable income to begin investing in individual stocks.

She logs into her investment platform and selects the company page for her targeted investment, a technology firm which she knows through work. She selects to buy and chooses to invest in £2,000 worth of shares. She is quoted a price, which she accepts within the 10 second window. She then gets confirmation of the trade and all the details of the order including the full transaction costs.

Nifty 50: an anatomy of India's flagship stock index

The index is dominated by the financial services sector



Launched in the mid-1990s by the National Stock Exchange of India, the Nifty 50 is one of two key benchmarks for Indian equities along with the Bombay Stock Exchange's Sensex index.

As its name suggests the Nifty includes 50 constituents, whereas the Sensex includes 30, and as such it covers a broader spread of industries, encompassing some 22 different sectors of the Indian economy.

Rebalanced twice a year, constituents are selected by their market value. The stock with the largest weighting in the index as at 31 January 2020 was HDFC Bank, which is the number one private sector lender by assets in India. Financial services firms represent more than 40% of the index.

In a sign of the growing importance of innovation in the Indian economy, IT is the third largest industry in the index with multi-national firm Infosys, a provider of software, outsourcing and business consultancy services, in the list of top 10 constituents.

Conglomerates, diversified across a range of different business areas, remain more common in emerging markets than they are in developed economies. Reliance Industries is a good example, operating in areas as diverse as petrochemicals, textiles and telecommunications.

In the last 20 years the Nifty has gone up seven-fold compared with an advance of just 20% for the FTSE 100.

UK investors can gain exposure to Indian equities through diversified emerging markets investment vehicles such as the **Templeton Emerging Markets Investment Trust (TEM)**.

NIFTY 50 SECTOR BREAKDOWN

- Financial services 41.5%
- Energy 13.7%
- IT 13.2%
- Consumer goods 11.6%
- Automobile 5.7%
- Construction 3.4%
- Metals 3.0%
- Telecom 2.7%
- Pharma 2.2%
- Cement / cement products 1.6%
- Other 1.4%

Source: National Stock Exchange of India

NIFTY 50 FUNDAMENTALS

Price-to-earnings ratio	26.4
Price-to-book ratio	3.4
Dividend yield	1.3%

Source: National Stock Exchange of India

Emerging markets: Views from the experts

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

1. The outbreak of the **2019 Novel Coronavirus in China**, which has spread across Asia and other parts of the world, has had a negative impact on sentiment in the short term. Business activity and consumption in China have been significantly impacted as people curtail their movements as a preventive measure. This is expected to result in a materially negative growth print in the short term. Sectors such as travel, leisure, retail and select sub-segments of discretionary consumption are being directly impacted in the near term. We could, however, see the government respond through additional stimulus measures such as further rate cuts, measures to encourage infrastructure spending or boost consumption. While we continue to monitor the situation, we currently believe the long-term growth outlook for China and Chinese equities remains unchanged.

2. **India's fiscal deficit** target for the budget was raised to 3.8% of gross domestic product (GDP) for fiscal year 2020 (FY20) in view of lower revenues, while the target for FY21 was set at 3.5%. While there were high market expectations for fiscal expansion given weakness

in India's economy, the FY20 budget largely reflected the government's decision to stay on the fiscal consolidation path, with no significant stimulus to the economy. Additionally, we believe the Indian economy and corporate earnings growth are set for a gradual recovery over the next one to two years, supported by growth-oriented policy measures already undertaken.

3. Although **emerging market small caps** recorded positive returns in 2019, the asset class lagged its emerging markets large cap counterpart. We, however, believe that the structural story for emerging markets small caps remains intact, i.e. small caps are levered to idiosyncratic local economic dynamics, particularly consumption. Attractive valuations in the asset class and solid earnings potential further support the investment case, in our view.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

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

Kepler Trust Intelligence

How private equity works in the real world

WITH THE NUMBER of companies staying private growing every year, and a clear diversification benefit on offer, the case for private investors to consider a private equity allocation is compelling. Listed private equity (LPE) trusts offer investors access to this asset class – but, not all LPE trusts are made equal.

By co-investing with other private equity sponsors or managers, **NB Private Equity Partners (NBPE)** has access to a vast array of deals, spread across different sectors and geographies. Many of the companies in its portfolio are very different in nature to those available in public markets.

Here, we discuss two of the most recent private company exits (two announced and pending close and one closed) which are expected to produce aggregate returns above the weighted average gross multiple of invested capital of 2.5x that NBPE achieved from 2019 exits, the reasons NBPE invested in the first place and the exit outcome, demonstrating the various life cycles of private equity deals. Whilst NBPE's investments won't necessarily always result in such strong returns, we hope to illustrate the variety of businesses represented in the portfolio and the various methods by which value is created, and ultimately crystalised through an eventual sale.

The Hilsinger Company: global eyewear distributor

The Hilsinger Company, which does much of its business from its Massachusetts base under the name Hilco Vision, manufactures and sells an array of eyewear products under several sub brands through subsidiaries in markets as varied as the US, UK, Germany and China, among others. Its products run the gamut from protective glasses, through to optometrist's tools and accessories for consumer products. NBPE invested $4.5m in the company in May 2014, alongside Blue Point Capital.

The company had clear prospects for growth, with Blue Point coming in with a plan to catalyse on these. This included expanding its footprint globally, broadening its product and brand portfolios, and increasing its distribution network. Blue Point helped Hilsinger execute these plans successfully, including a series of eight add-on acquisitions, ultimately nearly doubling sales and EBITDA over the course of its ownership.

The company was sold to another private equity firm in September 2019.

LGC: UK-based life sciences group

NBPE invested $10.4m into life sciences group LGC in March 2016, alongside KKR - a private equity manager with which Neuberger Berman has co-invested on multiple occasions.

As with many companies operating in the life sciences space, LGC offered significant potential for growth due to several global megatrends that are driving demand for the industry's products. KKR planned to focus on continuing the development of the business, with a particular focus on the U.S. and Asia. The company also benefitted from products serving wide end markets offering safety, health and security to the public, all of which combined to make it an attractive proposition for KKR and NBPE.

KKR worked with management to support the company's accelerating growth by making several acquisitions and building its business in the US and Asia. These efforts ultimately paid off, with LGC's organic revenue growth accelerating to 10% per annum.

In November 2019, the company announced a sale which valued LGC at approximately £3.0 billion to private equity managers Cinven and Astorg.

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

The stocks and indices that matter in Japan

We take a closer look at the Nikkei 225 and its key names

Tokyo's stock exchange has origins dating back to 1878 making it the second oldest in Asia while its $5.7trn market capitalisation makes it the world's third largest.

One of the most followed indices for Japanese investors is the Nikkei 225, often shortened to the Nikkei. It measures the performance of 225 blue-chip companies. The index has been calculated by the Nihon Keizai Shimbun newspaper since 1950.

The index hit an all-time high on 29 December 1989 during the country's property bubble, closing at 38,915.

Today the index trades at 23,479, still some 40% below the peak reached 31 years ago.

Over the last year the index has gained 8.4% compared to 20% for the S&P 500 and 3.2% for the FTSE 100.

The index is re-balanced once a year in October.

Unlike stock markets in the West where companies are identified by a ticker name, in Japan each company has a number identifier. For example Fast Retailing is identified by the number 9983.

Another unusual feature about the Japanese stock market is that since 2013 the Bank of Japan (BoJ) has been steadily purchasing domestic exchange-traded funds (ETFs) and now holds more than three quarters of them.

In addition the BoJ is a top 10 shareholder in over 90% of companies of the Nikkei.

This is the fourth of a multi part series on global indices. Part one covered the UK's FTSE 100 and FTSE 250, part two included the S&P 500 and Nasdaq in the US and part three looked at the Euro Stoxx 50 and DAX 30 indices in Europe.

Nikkei 225 TOP TEN

Name	Weight %
Fast Retailing	10.4
Softbank Group	4.3
Tokyo Electron	3.5
Fanuc Corp	3.4
Kiddi Corp	2.8
Daikin Industries	2.3
Terumo Corp	2.2
Kyocera Corp	2.2
Shin-Etsu Chemical	1.9
Recruit Holdings	1.7
Total	34.7

Source: Nikkei

PRICE WEIGHTED

Unusually the index is calculated by reference to the price of each company's share price rather than its market capitalisation.

For example Uniqlo owner Fast Retailing has a 9.2% weighting in the index and a market capitalisation of 6.1trn yen, ($55bn), twice the weight of the bigger Softbank Group with its market capitalisation of 11.5trn yen ($100bn).

This is because the former has a stock price of 59,990 yen compared with just 5,351 yen for the latter.

The largest company measured by market capitalisation is car manufacturer Toyota Motor Corporation ($188bn) but its index weighting is only 1.1%. Toyota Motor is 1,880 times bigger than the smallest company in the index, textiles company Unitika with its $100m market cap and 0.01% weighting.

TECH HEAVY EXPORTERS

The index is dominated by the technology sector which has a 47% weighting and consumer goods with a 24% weighting.

Financials and utilities are the minnows of the index representing around 2% each.

The Japanese economy is strongly dependent on the export sector and this means that the value of the Japanese yen has a big impact on the Nikkei. If the yen weakens, it makes exported products cheaper and pushes up the share prices in the index while a stronger yen has the opposite effect.

Exchange-traded funds tracking the index include **iShares Nikkei 225 ETF (0MO3)**.

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RUSS MOULD
AJ Bell Investment Director

Will the 'Boris bounce' fall flat?

March could be a decisive month for the UK stock market

March could be a big month for the UK stock market. Investors continue to await news on the spread of the coronavirus (COVID-19) and whether containment and quarantine policies are starting to work. The Bank of England will formulate its first monetary policy decision under its new governor, Andrew Bailey on the 26th of the month; and the new chancellor of the exchequer, Rishi Sunak, will outline the fiscal policy plans of the Boris Johnson-led Conservative Government on the 11th.

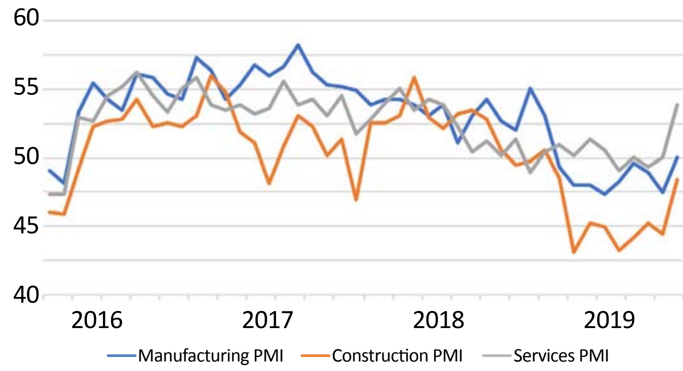
How the viral outbreak develops is still anyone's guess. The profit warning from Apple suggests the outbreak is starting to have a negative impact on economic activity, although markets still seem to be leaning toward the view that any effects will be relatively short-lived, as was the case in SARS in 2002-03, and that the world is not on the brink of the sort of apocalypse witnessed in John Wyndham novels.

The Bank of England still seems more inclined to cut interest rates rather than raise them, although the arrival of a new governor could change the tone, as could both fresh economic data and Government policy.

On the policy front, economists seem convinced that Sunak will oversee an increase in spending as the Government prepares for the ending of the Brexit transition phase on 31 December and looks to cement its current popularity in the seats won in last year's election.

In terms of the economic data, there have been some tentative signs of improvement and it will be interesting to see if the latest batch of purchasing managers' indices for the manufacturing, construction and services industries that will come out between 2 and 4 March show additional momentum or not.

JANUARY'S IMPROVED PMI SURVEYS HINTED AT IMPROVED MOMENTUM IN THE UK ECONOMY



Source: IHS Markit/CIPS, Refinitiv

MOVING PARTS

There are four main moving parts to any country's GDP data, at least from a pure accounting perspective. They are:

- **Private consumption**
- **Business investment**
- **Government spending**
- **Trade (defined as exports minus imports)**

While investors may not be accustomed to receiving too much good news on the UK economy, this is perhaps one reason why upside surprises cannot be ruled out.

It is quite possible that consumer spending, business investment and Government expenditure all rise, if left to their own devices.

The last forecast provided by the Office for Budget Responsibility (March 2019) looked for a meagre 1.1% increase in **household consumption** in 2019, down from 1.7% in 2018 and 2.1% in 2017. However, the OBR then expected an acceleration to 1.5% in 2020 and 1.6% in 2021.

RUSS MOULD
AJ Bell Investment Director

This seems sensible enough, especially if the Conservatives follow through with some of their promised tax cuts.

Moreover, wage growth continues to outpace inflation and that trend could also boost individuals' spending power, if it is maintained. One risk here is that the household savings rate starts to rise. At 5.5% in Q3 2019 this came in well below the near-9% average seen since records began in 1963.

The OBR expected **business investment** to fall for the second time in a row in 2019 but its numbers then looked for a sizeable post-Brexit deadline bounce, with 2.3% growth in 2020 and 2021.

The last Bank of England agents' survey, for Q4 2019, gave some credence to that view as the investment intentions reading improved for the second quarter in a row, albeit from very low levels.

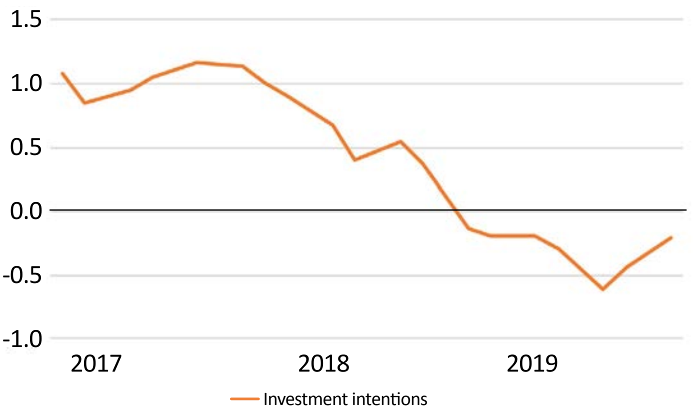
Growth in **Government spending** looks set to accelerate, at least if the ejection of the apparently fiscally-prudent Sajid Javid from 11 Downing Street and the decision to press ahead with the HS2 rail project are any guide.

Another former chancellor, Philip Hammond, had begun to refer to £26bn of fiscal headroom, which is not a pot of cash, but extra spending that would take the UK's annual budget deficit back to 2% over the next five years. The only question to ask is presumably whether the new Government stops there or spends further. The OBR factored in a relatively modest increase in spending in 2020.

The hardest area to judge may be **trade**, given the impact of Brexit talks, the coronavirus outbreak and wider global trade tensions. Export growth has sagged of late while import growth has surged, increasing the trade deficit and weighing on growth.

However, the OBR did expect the negative impact to shrink in 2020 and beyond so it will be interesting to see how the OBR's forecasts change from a year ago when the next Budget is released on 11 March.

BUSINESS INVESTMENT COULD BE ABOUT TO PICK UP



Source: Bank of England Agents' Summary of Business Conditions report, Q4 2019

UPS AND DOWNS

If this column was forced to guess, Government spending could provide the greatest upside surprise, and trade is perhaps the biggest risk, with the overall scope for surprises slanted to the upside. If so, that could favour domestic-facing stocks over the multinationals of the FTSE 100, although, as Warren Buffett once commented: 'Forecasts tell you a great deal about the forecaster; they tell you nothing about the future.'

YEAR-ON-YEAR CHANGE (%)

	2017	2018	2019E	2020E	2021E	2022E	2023E
Household consumption	2.1%	1.7%	1.1%	1.5%	1.6%	1.6%	1.6%
Corporate investment	1.5%	-0.9%	-1.0%	2.3%	2.3%	2.4%	2.4%
Government spending	3.7%	0.5%	5.9%	1.8%	2.2%	0.9%	2.0%
Net effect of trade	0.5%	-0.2%	-0.5%	-0.2%	-0.1%	-0.1%	-0.2%

Source: Office for Budget Responsibility, March 2019

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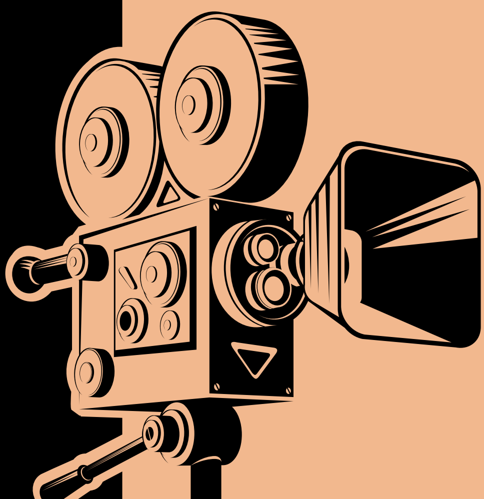

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Inc vs acc: choosing the right fund type to collect or reinvest dividends

Explaining the difference between income and accumulation units of funds

Share classes on funds can be confusing, but picking the right and wrong one can make a significant difference to your portfolio.

Often investors will be faced with a confusing array of letters or acronyms after a fund name, which can look like alphabet soup but actually make a big difference to how much you're charged, whether income is paid out or reinvested, and what currency the fund is in.

Some of the differences are explained in this article.

WHAT IS INC AND ACC?

Fund investors, particularly in income funds, can be faced with the choice between an 'Inc' or 'Acc' share class – standing for 'Income' or 'Accumulation'.

Put simply, if you invest in the accumulation version of the fund then any income generated from the underlying investments will be automatically reinvested back into the fund, while the income version will see all of that money paid out to you.

Which one you pick depends on whether or not you're relying on the fund to pay you out an income that you need to use now. For example, someone who is drawing their pension may want the fund's income to help pay for their lifestyle.

However, someone who is still building up their pension pot and doesn't need any additional income could buy the accumulation share class and see their income reinvested.

If you buy the income unit the income will be paid out across the 12-month reporting period of the fund, but how often it pays out depends on each fund – sometimes it's monthly, quarterly or twice a year. You'll need to check the fund documents to see the payment frequency.

The fund may also choose to attempt to smooth the income payments across the year – rather than just paying out the income as it comes in. This means you'd get roughly equal amounts through the year and then any remainder included in the final payment of the year.

Spotting the difference between an 'Inc' and 'Acc' fund unit

The clue is in the product name. If you want to collect income as cash look for the letters 'Inc' in the fund title. If you want to automatically reinvest dividends, look for the version of the fund with 'Acc' in the fund title.

TB Evenlode Income B Inc – this is the cash-paying income version

TB Evenlode Income B Acc – this version rolls up the income so dividends are automatically reinvested

HOW DOES IT AFFECT MY RETURNS?

With the accumulation unit you benefit from compounding of returns, assuming the fund increases in value. This means that the income generated by the fund is used to buy additional units of the fund, which then (hopefully) grow and generate more income. The impact over the long time period you're holding the fund can be quite dramatic.

Let's take **Evenlode Income (BD0B7D5)** as an example of an income-focused fund. Over the past five years the 'Inc' version of the fund has turned a £10,000 investment into £14,262.

During this time it has also paid out £2,003 in income. However, if you'd bought the 'Acc' version of the fund it would have turned that same £10,000 initial investment into £16,983 – meaning you've generated more than £700 in extra returns by reinvesting the income payouts.

The difference is starker over longer periods, as there is more time to benefit from compounding. Since the fund launched in October 2009 the Inc version has turned £10,000 into £23,709, while also paying out £5,779 in income while the same £10,000 in accumulation units is now worth £34,226 – nearly £5,000 more than if you'd gone with the Inc version.

BUT HOW DOES THIS ACCUMULATION WORK IN PRACTICE?

As income is received from the underlying investments it will be added to the capital value of the fund, which will be reflected in the unit price of the fund. So if accumulation version of the fund received 10p of income per unit, the unit price would rise by that amount to reflect this payment.

For accumulation units this money continues to be rolled up in the fund, as and when the income is received. For income units this money is also rolled up, but on the next date that income is due to be distributed by the fund, the unit price will drop as the income money is stripped out of the fund.

You'll still be left with the capital value, but all things being equal your unit price will drop by the amount of income that's been paid out (and you've received). For example, if the unit price is 110p and 10p of income per unit is paid out, then the unit price would drop to 100p.

WHAT ABOUT THE TAX DIFFERENCE BETWEEN INC AND ACC FUNDS?

You also need to think about the tax on any income you are paid out. If you invest your money in an ISA you won't need to pay any tax on income generated by investments in the account. But if you own the income-generating fund in a dealing account, where there are no tax advantages, there will be tax implications for either unit.

For the income unit it's

The difference in returns between income and accumulation units

	Evenlode Income Inc	Evenlode Income Acc	Difference
Five-year return	£14,262	£16,983	
Income	£2,003	n/a	
Total	£16,265	£16,983	**£718**
Return since launch	£23,709	£34,226	
Income	£5,779	n/a	
Total	£29,488	£34,226	**£4,738**

Source: FE. Based on £10,000 initial investment. Fund launched on 19/10/2009. Data accurate to 20/02/2020.

simpler. You'll have to pay tax on income that's paid out to you, and this will be categorised as either interest or dividend income, depending on the fund you're investing in and what it invests in. If it's categorised as dividend income it will be counted against your annual dividend allowance, which is currently £2,000.

If your dividend income exceeds this, when combined with other dividends you've received in the year, you will have to pay dividend tax at your marginal rate. However, if the fund categorises these payouts as interest it will be taxed as income rather than dividends.

This means that rather than being counted against the dividend allowance, it will count as part of your personal savings allowance. The annual limit is £1,000 for basic-rate taxpayers, or £500 for higher-rate taxpayers. Additional-rate taxpayers get no allowance.

INCOME TAX ON ACCUMULATION FUNDS

If you own the accumulation unit then income that's rolled up into this unit is called 'notional distribution' and is taxable in the same way as the income that's paid out to holder of the income unit of the fund.

Your platform will usually keep track of these notional distributions and provide you with a summary of them at the end of the tax year. This can be used when filing a tax return. You then need to go through the same process as above, setting it against the relevant tax allowance.

If you own the funds within an ISA and decide to sell them you won't have to pay capital gains tax on any growth in the fund, but if you own it outside a tax-efficient wrapper such as a dealing account you'll need to consider the capital gains tax (CGT) implications. The current allowance for CGT is £12,000 per person a year, meaning you can make gains up to this level before you pay tax.

With the income units of a fund this is a simple calculation, as the income has been paid out already so you just need to deduct your initial investment from the amount you receive when you sell the investment, and work out if you owe tax on any gains.

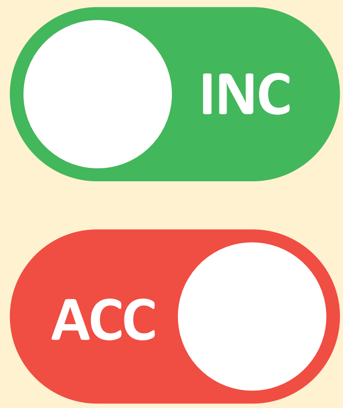
CAPITAL GAINS TAX ON ACCUMULATION FUNDS

With an accumulation unit it's a bit trickier. You need to deduct the sum of the initial investment *and* any notional income that's been accumulated from your sale value, to work out the capital gain.

For example, if you buy a fund for £100 and received £20 of notional income in the accumulation unit, and then sell it for £200 you'll only have a capital gain of £80 (the £200 minus the £100 initial investment and the £20 income).

This is important because you could have already paid tax on the notional income you received, so if you don't include it in the final calculation you could end up paying tax twice on the same money. Most platforms will keep track of the notional income for you and provide this information.

What if i want to switch?



If your circumstances change you may want to shift from the accumulation unit of a fund to the income unit – for example, when you come to retirement age and want to use your pension for income.

You can switch from one unit of the fund to another, and with AJ Bell Youinvest you would incur no cost for doing so. You would see the same value of your investment, regardless of the unit you own, but you might see the number of units change.

For example if you have £100 worth of the accumulation unit of a fund, which is priced at 100p, you would own 100 units of the fund. However, if you switched to the income unit, which was valued at 80p per unit, you would still own £100 worth of the fund but would see the number of units you own increase to 125.

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

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KEY

- **Main Market**
- **AIM**
- **Investment Trust**
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KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

28 February: CRH, Dev Clever, Foxtons, Glenveagh Properties, Jupiter, London Stock Exchange, Rolls-Royce. **2 March:** Greencoat Renewables, Hiscox, Johnson Services, Senior. **3 March:** 4imprint, Apax Global Alpha, Cairn Homes, Direct Line, GetBusy, Greggs, Hutchison China Meditech, Ibstock, Intertek, Legal & General, Rotork, Signature Aviation. **4 March:** Attraqt, BATM, Devro, Elementis, Hill & Smith, Hostelworld, Polymetal, Vivo Energy. **5 March:** Admiral, Aviva, Domino's Pizza, Franchise Brands, Gresham House, GVC, Headlam, IndigoVision, Intu, ITV, Melrose, PageGroup, Premier Oil, Schroders, Spire Healthcare, Spirent Communications, Tyman.

Half year results

3 March: Craneware. **4 March:** Allergy Therapeutics, Gfinity. **5 March:** Brooks Macdonald, DX, Kier.

Trading statements

3 March: Ashtead.

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

All chart data sourced by Refinitiv unless otherwise stated

THIS WEEK: 15 PAGES OF BONUS CONTENT

THE FULHAM SHORE

MANOLETE

OPEN ORPHAN

PORVAIR

SHARES SPOTLIGHT

Growth & Innovation

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

ISSN 2632-5748

FEBRUARY 2020

Introduction

Welcome to *Spotlight*, a bonus magazine which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment.

As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our investor evenings in London and other cities where you get to hear from management first hand.

Click here for details of upcoming events and how to register for free tickets.

Previous issues of Spotlight are available on our website.

DISCLAIMER

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Which 2019 top AIM performers are carrying the momentum into 2020?

The markets enjoyed a strong performance in 2019 and AIM was no exception. The AIM 100 index, encompassing the 100 largest companies on the junior market, was up more than 12%.

The top 10 performers from AIM's elite did significantly better with an average return of 217.6%. In this article we look at what did well and why, and examine which companies have been able to sustain a strong performance into 2020, when the wider market environment has been more uncertain.

Near the top of the list for 2019 was hydrogen energy equipment manufacturer **ITM Power (ITM:AIM)**. The Sheffield-based firm enjoyed quite a year.

In October it secured £58m of new funding including a major investment from industrial gases and engineering specialist Linde which entered into a joint venture with the group. However, it is yet to translate promise into profit, with consensus forecasts suggesting breakeven will not come by the April 2022 financial year.

At the other end of the spectrum is oil and gas firm **Jadestone Energy (JSE:AIM)**, which is buying assets unwanted by larger rivals in the Asia Pacific region. The addition of the Maari field in New Zealand, secured through a deal with Hungary's OMV, gave the shares a particular fillip.

Top AIM 100 performers 2019

Company	Return in 2019
Silence Therapeutics	569.0%
Shield Therapeutics	487.0%
ITM Power	204.0%
Jadestone Energy	173.0%
Manolete Partners	142.0%
Judges Scientific	135.0%
Alpha FX	121.0%
GlobalData	120.0%
Dart Group	119.0%
Learning Technologies	106.0%
Average	**217.6%**

Source: SharePad

SHIELD AND SILENCE COMPETE FOR TOP SPOT

Two biotechnology firms with similar sounding names top the list, **Silence Therapeutics (SLN:AIM)** and **Shield Therapeutics (STX:AIM)**.

Silence soared after securing a big partnership with US firm Mallinkrodt. The deal, covering the company's SLN500 treatment, involved an upfront payment of $20m and the potential for millions of dollars more in milestone payments and royalties if SLN500 makes it through clinical trials with a positive end result.

Shield, which specialises in developing drugs aimed at addressing iron deficiency, got a big boost as the US Food and Drug Administration (FDA) approved its lead drug Accrufer. The company is working on finding a commercial partner for the drug.

Litigation finance firm **Manolete (MANO:AIM)** was also in demand with investors. Half year results announced in November revealed revenue up 15% to £7.5m with gross profit advancing 50% to £6.6m.

This performance marked a strong debut for the company which joined AIM in December 2018, and was striking given the struggles of its major peer **Burford Capital (BUR:AIM)** which fell 57% in 2019 after being targeted by short-sellers.

HERE'S THE SCIENCE BIT

Scientific instruments maker **Judges Scientific (JDG:AIM)**, essentially a portfolio of niche science-based businesses spanning nanotechnology, fibre optic testing, advanced materials, LED design and x-ray technology, excelled in 2019.

Record half year results were accompanied by a 25% increase in a dividend which was still covered seven times by adjusted earnings and the growth was all the more impressive for being achieved without any help from M&A.

Staying on the tech-based theme, corporate online trainer **Learning Technologies (LTG:AIM)** improved its margins and bid on larger contracts after a series of acquisitions helped build scale.

Data analytics firm **GlobalData (DATA:AIM)** soared as it returned to profit and investors began to see the benefit of its £90m acquisition of Research Views in 2018. This has helped with a plan to offer a unique product which is embedded in the workflow of several big global industries.

The owner of the Jet2 airline **Dart Group (DTG:AIM)** benefited from the collapse of its larger rival Thomas Cook, while **Alpha FX (AFX:AIM)** was on a tear as it helped an increasing number of businesses with their foreign exchange needs.

SUSTAINING THE MOMENTUM

Of the top 2019 performers, half are in positive territory in 2020. ITM Power stands out, up another 100% as it announced a £7.5m funding grant from the UK Government, which helps with the second phase of its Gigastack renewable hydrogen joint venture.

Silence Therapeutics' strong start to 2020 follows news of a tie-up with major Japanese pharmaceutical firm Takeda which should unlock millions in research funding.

Dart Group's 12.5% advance is impressive when you consider the airline sector is facing a potential threat from the coronavirus outbreak, while Learning Technologies continues to rumble along, supported by an upgrade to full year guidance in January.

The two worst performers are Jadestone Energy – hit by falling oil prices – and Manolete whose fall could reflect a mix of profit taking and weak sentiment towards its niche.

How AIM 100's top 2019 performers are faring in 2020

Company	Return in 2020 year-to-date
Silence Therapeutics	31.7%
Shield Therapeutics	-14.5%
ITM Power	103.0%
Jadestone Energy	-17.8%
Manolete Partners	-18.9%
Judges Scientific	-0.4%
Alpha FX	0.4%
GlobalData	0.0%
Dart Group	12.5%
Learning Technologies	12.2%

Source: SharePad, data to 21 February 2020

THE FULHAM SHORE PLC

The Fulham Shore targets further growth

www.fulhamshore.com

The Fulham Shore (FUL:AIM) is a successful, profitable and growing restaurant business which owns and operates both Franco Manca and The Real Greek restaurants.

It currently operates 51 Franco Manca restaurants throughout the UK, plus a franchise pizzeria in Italy, as well as 18 The Real Greek restaurants.

The company listed on AIM in October 2014, and has grown turnover, profit and restaurant numbers each year since. Its growth strategy focuses on driving profits through expanding both brands, in and outside of London, whilst maintaining their value propositions.

In line with this growth strategy and following successful openings to date, an expansion programme is underway for both brands. The company plans to open around eight new Franco Manca and two The Real Greek restaurants in well-located sites over the coming year, taking the total number of restaurants to over 80. Each site has a target three-year payback, and costs on average £700,000 to buy and fit out.

INTRODUCING... FULHAM SHORE

A RESTAURANT BUSINESS WHICH OPERATES THE FRANCO MANCA AND THE REAL GREEK CHAINS

THE PROPOSITION

Today, The Fulham Shore operates from 69 restaurants across the UK. All serve delicious food at an affordable price point in enjoyable buzzy surroundings.

Franco Manca was founded in 2008 and acquired by Fulham Shore in April 2015 - the business specialises in authentic Neapolitan pizza made from slow-rising sourdough. The focus is on value for money, fresh ingredients and 'keeping it simple', ensuring the menu is maintained at a low spend her head.

Fulham Shore has grown the business from 11 to 51 sites in less than five years, four new restaurants were opened during FY19 and seven so far in FY20. Franco Manca also has a franchised pizzeria on the island of Salina in Italy which was opened in 2018. Franco Manca has the ability to trade from a variety of property sizes and has a building pipeline for FY2020 looking to continue expanding beyond the capital.

The Real Greek was acquired

by Fulham Shore in October 2014 but has actually been trading successfully since 1999. The Fulham Shore has grown the business from six to 18 restaurants in five years. The Real Greek food centres on the delicious, healthy diet of the Eastern Mediterranean, staying true to the Greek ethos of food, family and friends.

Ingredients and products are sourced mainly from Greece and Cyprus with cold and hot mezes being a main feature on the menu. A vegan menu was launched in spring 2018. Expansion continues outside of London with a pipeline of new sites both within and outside the M25.

COMPANY HISTORY

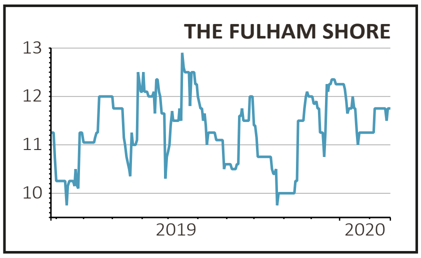
The Fulham Shore was incorporated in 2012 and admitted to ISDX Growth Market in February 2013. In October 2014 the company was admitted to AIM and also acquired Kefi Ltd, the owner of The Real Greek.

In April 2015 Fulham Shore acquired Franco Manca, which at that time comprised 11 pizza restaurants. As at February 2020, the company has 69 restaurants and is capitalised at £60m to £70m.

Revenue, headline EBITDA (earnings before interest, tax, depreciation and amortisation) and operating cash flow have all increased, year on year. Successful new openings have led to an increased opening programme for the current financial year, with target cities including London, Edinburgh, Manchester, Cardiff, Liverpool, Glasgow and Newcastle.

Looking ahead, the business's focus on consistency, value for money, food quality and provenance, combined with its well-invested estate, stands it in strong stead for continued growth. Underpinning this is its ongoing investment in team members through training and support, career progression and the opportunity for employee share ownership.

The Fulham Shore is a profitable, growing restaurant business and is well-positioned for the future.



Manolete
— PARTNERS PLC —

SHARES AWARDS 2019
WINNER
Growth Company of the Year

Manolete leading the way in UK insolvency litigation finance

https://investors.manolete-partners.com

Litigation funding has been hitting the headlines in recent months. It is important for investors to understand the critical differences in how these listed firms operate their model and report their results.

Manolete Partners (MANO:AIM) has been very energetic since IPO in December 2018 in engaging directly with investors and keeping the market as informed as possible. Transparency certainly builds investor confidence.

The firm only deals with UK business and focuses entirely on cases of insolvency. The supporting legislation is the Insolvency Act 1986 which uniquely allows claims to be purchased rather than funded – Manolete purchases about 90% of the time.

This gives it full control of the

INTRODUCING... MANOLETE PARTNERS

THE UK'S LEADING INSOLVENCY LITIGATION FINANCE COMPANY

Founder and chief executive, Steven Cooklin

cases: when to issue the claim; when to approach to settle; ability to make and receive settlement offers and in rare instances when to abort the claim to minimise losses.

All other listed funders focus on funding the claimant rather than buying the case. By buying the case, Manolete is in full control – it is the company's asset.

So that technical bit of law makes the world of difference to the fundamental business model.

Firms who primarily fund claims can find themselves at the mercy of an irrational and emotionally motivated claimant who may appear never to be satisfied with reasonable settlement offers – they may also demand their 'day in court'. All that means legal and other costs escalating and cases dragging on for four, five, six or more years. These firms enter into funding commitments and are therefore usually bound to funding cases for as long as the claimant wishes.

Vintage	Investments	% Completion	Duration	Return on Investment	Money Multiple	IRR
FY12	8	100%	18	155%	2.5	236%
FY13	10	100%	7	167%	2.7	281%
FY14	42	100%	10	145%	2.5	424%
FY15	39	100%	13	153%	2.5	526%
FY16	36	100%	15	158%	2.6	176%
FY17	31	94%	11	142%	2.4	609%
FY18	29	66%	9	256%	3.6	1413%
FY19	59	46%	7	162%	2.6	168%

As at 30 September 2019. Source: Manolete

Manolete's average case duration is just 11 months.

The vintages in the table on the previous page shows it has completed all cases in years up to 2016 with two remaining for 2017. The result is that on the vast majority of the approximately 150 live cases (90% by volume and 94% by value) commenced in the last 18 months.

LEADING LEVELS OF RETURN

Over a consistent eight-year period Manolete has delivered best-in-breed returns on investment (ROIs), money multiples and IRRs (internal rates of return). In the first six months of the current FY 20, 65 new cases were commenced – more than the entire 12 months of FY 19. More remarkably, cases are currently being completed at a rate of one a week.

As at 30 September 2019, Manolete had invested in 344 UK insolvency litigation cases and completed 211 of them - the large majority are settled long before trial, minimising costs and optimising returns. Strong control over case management allows for rapid resolution (c. 11 months) lower costs (about 15% of recovered funds) and manifestly better returns to the creditor (50% minimum after costs). Manolete provides a full indemnity to creditors should a case fail. Over the 10 years of the business only 3% of cases have gone to trial and Manolete has never lost a case in England and Wales (one small case lost in Scotland).

At the heart of Manolete's business is a desire to achieve greater justice for creditors who have been consistently let down over many years. Fairer and better returns for creditors in cases of insolvency prevents the age-old 'knock-on' effect to other British businesses and builds vital confidence for lenders and entrepreneurs.

IPO

Manolete was founded in 2009 by its chief executive, Steven Cooklin. Manolete has a highly experienced board including Dr Stephen Baister as a non-executive director who was until recently the chief bankruptcy judge in the UK.

Recent legal changes have profoundly freed up the insolvency sector. Manolete floated on the London Stock Exchange (AIM) in December 2018. The IPO raised a net £14.7m. The share price has since more than doubled giving the company a valuation of £200m. At IPO, HSBC extended its revolving credit facility from £10m to £20m at a maximum rate of LIBOR plus 2.75%. Manolete's average return on investment over ten years is 159%.

In the latest first half results to Sept 2019, net revenues (gross profit) increased by 50% to £6.6m, leading to a 41% increase in post-tax earnings. Manolete has no debt (the HSBC facility is fully unutilised) and pays regular dividends.

CALCULATING FAIR VALUE

The company observes that when it presents at investment forums, questions are often raised on how it calculates fair-value on cases.

Manolete says: 'This is a perfectly reasonable issue to raise and one where we want to reassure the market of our determination to carry out the fairest value possible. It would only be a matter of time before any artificial inflation of results, for short-term gain, would no doubt be exposed by investor scrutiny at the cost of long-term confidence to the business.'

In accordance with IFRS 9 and IFRS 13, Manolete is required to fair value open cases at the half year and year ends (reporting period). So how does the business do it? Essentially there are three key stages:

- On a weekly basis, the internal legal team report developments into the Investment Committee. Full team meetings take place fortnightly to review progress on all live cases and cash collection on closed cases. On a monthly basis, the directors adjust case values (up or down or no-change) depending upon objective case developments, for example offer to settle received, mediation agreed, case settled, case aborted, positive or negative external legal advice.

- At reporting period ends, all cases held at a value

in excess of £100,000 are subject to a written assessment by the external solicitors or counsel working on the case, as they have the requisite detailed knowledge of the matter.

- These assessments are shared directly with Manolete's external audit firm (RSM).

In all instances, Manolete will hold the case values at a discount to the values assessed by the external lawyers to reflect time value, litigation cost risk and enforcement risk. On the rare occasions that the external lawyers value the case lower than management's latest estimate, Manolete always immediately writes down the holding value of the case. Manolete has by far the shortest case durations among the listed peer group.

It is these short durations that make Manolete's case valuation assessments much easier to conduct.

In many instances, the case that was unrealised at the period end, has been realised at the time the relevant accounts are published to investors. So the unrealised value is stated with complete precision.

Many of the remaining unrealised cases will be close to a realisation event, for example, a 'Without Prejudice' settlement meeting has been agreed, a mediation is being arranged, one or more offers and counter-offers have been made. Those that are not, are held at a deep discount to their potential.

The table below shows exactly how the firm's estimates and rapid case completion combines to produces a 'wave' effect where unrealised revenue is transformed into strong realised returns the following year. Manolete is not relying on completing particularly large cases – in fact its largest ever realised gain represents just 7% of total lifetime realised gains. 78 of cases are valued at £50,000 or less.

Year ended	March 2015 £000's	March 2016 £000's	March 2017 £000's	March 2018 £000's	March 2019 £000's
Unrealised revenue	166	424	3,185	3,905	6,624
Realised revenue	658	4,371	1,658	6,725	7,148
Gross revenue	**824**	**4,795**	**4,843**	**10,630**	**13,772**

Source: Manolete

REGIONAL NETWORK OF LAWYERS

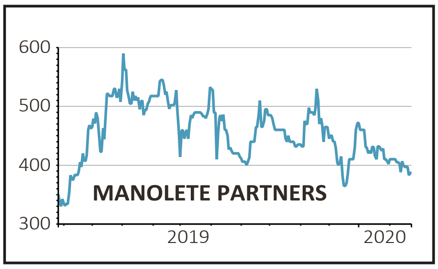
The company's highly experienced team of lawyers also need to 'land the catches' and it finds that once it has persuaded the other side to mediate then settlements can be quickly achieved.

Since IPO, Manolete has established a regional network of in-house lawyers covering the whole of Great Britain.

Manolete has also built a referral network of 135 Insolvency Practitioner firms where 60% of trade is repeat business. Essentially, the model works because it aligns Manolete's interests to those of the creditors, the Insolvency Practitioner and their chosen lawyers.

The company says it looks forward to continued strong performance. KPIs are showing quarterly growth in new signed cases: up to 2016 it averaged five cases per quarter which rose at IPO to 9 cases per quarter. The latest quarter up to 30 September 2019 showed 44 new signed cases.

Manolete is the recognised industry leader having won the Turnaround, Restructuring and Insolvency (TRI) award for 'Insolvency Litigation Funder of the Year' in three of the last four years. The business was also included in the 2019 FT1000, ranking Manolete as the 55th fastest growing company in Europe. Manolete was named 'Growth Company of the Year' at the 2019 Shares Awards.



Open Orphan lining up for role in coronavirus fight

www.openorphan.com

AIM-listed **Open Orphan (ORPH:AIM)** is lined up for a role in the global fight against coronavirus. Following the acquisition of hVIVO the company is a world leader in the provision of virology and vaccine challenge study services and viral laboratory services. It has Europe's only 24-bedroom quarantine clinic with onsite virology lab in Queen Mary's Hospital London. hVIVO supports product development for customers developing antivirals, vaccines and respiratory therapeutics, all particularly relevant and topical in the environment of heightened awareness of the Coronavirus in 2020.

Founded in 2017, Open Orphan, run by a management team with extensive industry and financial expertise, completed its IPO on the 28 June 2019 through a reverse takeover of Venn Life Sciences and more recently, the company completed the successful acquisition of hVIVO on January 20 2020. In addition to AIM, the company is listed on Dublin Euronext.

RESPONDING TO CORONAVIRUS

With its capabilities, hVIVO is positioned to aid in the development in the cure for Coronavirus. In response to

INTRODUCING... OPEN ORPHAN

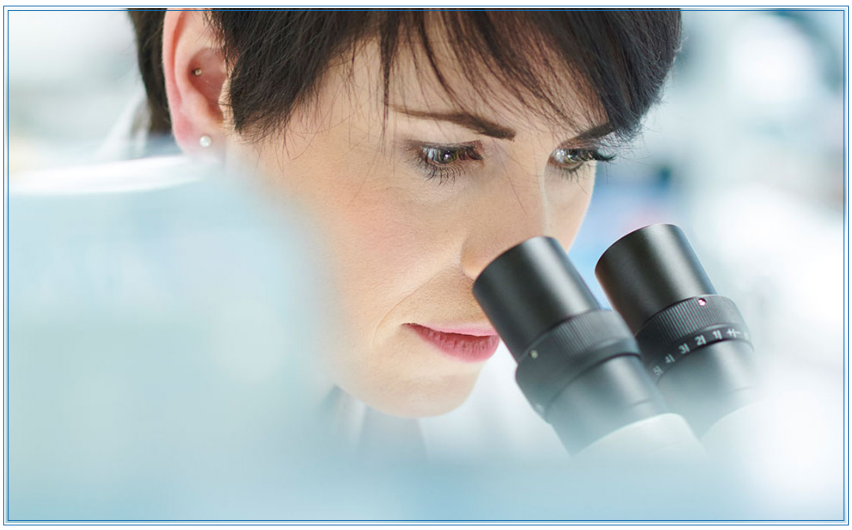
A RAPIDLY GROWING SPECIALIST CRO PHARMACEUTICAL SERVICES COMPANY WHICH HAS A FOCUS ON ORPHAN DRUGS

the virus, Open Orphan has appointed Professor John Oxford, as a consultant and advisor to the company.

Professor Oxford was also the original founder of hVIVO but left five years ago. He is a professor at Queen Mary's University London and one of the world's leading experts in virology including diseases such as MERS, SARS and Coronavirus. Open Orphan has also appointed him as chairman of its new Scientific Advisory Board alongside Chairman Professor Brendan Buckley, co-founder and director.

The company has a world leading portfolio of eight viral challenge study models which are: two flu, two RSV, two HRV, one asthma, one cough and one chronic constructive pulmonary disease viral challenge models. No other company in the world has such a portfolio, with only two competitors globally having one model each.

The company also has a 49% stake in Imutex Ltd JV which has developed a universal flu



vaccine, which has successfully completed all phase II trial studies. In the coming months, the Open Orphan team hope to get approval from the FDA to start a final Phase III trial.

But the group won't be making any further capital investment into the product as the intent is to license phase III out to a big pharma. The team is very optimistic as to the potential to monetise these assets and generate further revenue. Should it be successful, Open Orphan will get milestone payments and royalties going forward.

Complementary CRO specialist services

Cross-selling of hVIVO and Open Orphan Services already underway

December 2019 – 3 joint customer proposals were made

	Customer A	Customer B	Customer C
CMC	✓		
Phase I	✓		
Challenge study	✓	✓	
Phase II	✓	✓	✓
Lab support	✓	✓	✓
Data management	✓	✓	
Medical writing	✓	✓	✓

Comments

- For the first time in hVIVO's history, it is now pitching for both challenge studies and the natural, much higher value follow on phase II field trial study using the Venn expertise and capability
- hVIVO is now using Venn's Data Management, Medical Writing, and Statistical capability in all of its customer proposals
- This will be the catalyst for significant revenue growth and margin expansion within the business
- Venn now able to run its phase I studies in hVIVO's London clinic as opposed to renting other clinics at high cost
- Cross-selling of Phase I studies important near-term combined operational synergy

HOW THE COMBINATION OF OPEN ORPHAN AND HVIVO CREATES HIGHER VALUE LONGER-TERM CONTRACTS

Prior to the acquisition of hVIVO by Open Orphan, hVIVO was only able to conduct challenge studies and lab services. This meant that despite hVIVO engaging in recurring discussions of pre-clinical, Phase I and Phase II trials with clients, they did not have the capacity or expertise to undertake them.

Post-acquisition, the combined business can provide the complete gamut of services from chemistry, manufacturing, control, to Phase I and Phase II trials, all the way to regulatory services due to existing capabilities of the Open Orphan and Venn team. Therefore, the company will have the ability to sign longer contracts with greater revenue generation.

For the first time in hVIVO's history, it is now pitching for both challenge studies and the natural, much higher value follow on phase II field trial study using the Open Orphan expertise and capability.

hVIVO is now using Open Orphan's Data Management, Medical Writing, and Statistical capability in all of its customer proposals and even prior to completion of the transaction three joint customer proposals had been made by the company.

HOW THE COMBINATION OF OPEN ORPHAN AND HVIVO IS BUILDING ITS GENOMIC DATABASE

Open Orphan is developing one of Europe's largest genomic databases of rare disease patients capturing valuable genetic data from patient populations with specific diseases with designated orphan drug status and incorporating AI tools.

HVIVO ASSET PORTFOLIO

Europe's only 24 bed quarantine facility

•

Onsite virology lab

•

World's leading portfolio of 8 viral challenge study models, clinical and preclinicial trials

Open Orphan

'WELL POSITIONED TO OFFER SERVICES AND HELP TO THE COMPANIES WORKING ON SOLUTIONS TO THE CORONAVIRUS EPIDEMIC.'

– CATHAL FRIEL, EXECUTIVE CHAIRMAN, OPEN ORPHAN

Additionally, hVIVO has an extensive genomic database with patient data that they have full rights to. Since the acquisition of hVIVO, this database with three decades worth of data is being added to the Open Orphan genomic database.

VALUING THE COMBINED GROUP

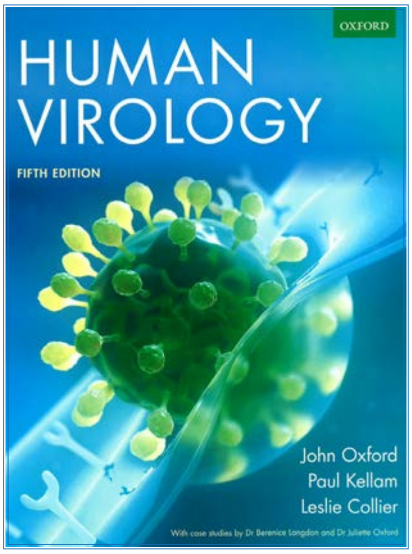
Since its IPO in June 2019, Open Orphan has acquired two business, Venn Life Sciences and more recently hVIVO in January 2020. The company is currently valued by the market at 1x its sales. Most of its profitable peers in the pharma services sector trade at 3x sales.

With the synergies programme in place to deliver cost savings of up to £3.1m in FY2020, increasing to £4.4m in FY2021 combined with the potential for longer term, larger value contracts, the group believes it is on track to be profitable in the coming months.

TRACK RECORD OF DELIVERY

The management team of Open Orphan has a track record of success. Executive chairman, Cathal Friel, set up **Amryt Pharma (AMYT:AIM)** five years ago and in 2019 Amryt had a sales revenue of $150m and an enterprise value of £450m which encompasses a market cap of £200m and £250m in performing bonds.

Just over two years ago Cathal stepped down from the board of Amryt Pharma to establish Open Orphan. To date, Friel has personally invested close to £2m in Open Orphan Plc. In the current placing he underwrote the minimum



fundraise of £2.5m without charging a fee.

In addition to that he invested another £300k at the placing price of 6.1p after the January 2020 fundraise following the acquisition of hVIVO as a clear demonstration of his commitment and belief in the plans he and the team has for Open Orphan.

At the IPO which completed on 28 June 2019, Open Orphan Plc raised £4.5m in fresh equity at 5.6p per share, the vast majority of which came from institutional shareholders.

Following the acquisition of hVIVO, Trevor Phillips and Tim Sharpington have become CEO and COO, respectively, of the enlarged group, with Michael Meade joining as an additional non-executive director.

Tim and Trevor joined hViVO 18 months ago and had started the process of transforming the company by slashing overheads and taken £11m of annualised costs out of the business. The refreshed management and board have experience and track record of restructuring businesses having taken action at hVIVO to deliver savings of £11m in two years.

REASONS TO INVEST

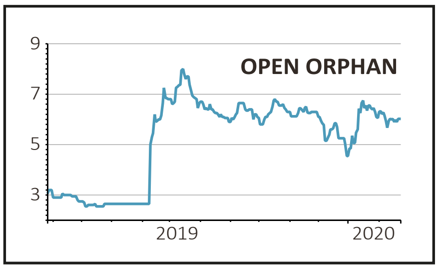
The management team of Open Orphan have a large amount of cash invested and in turn have a large equity position in the company and as such are aligned with shareholder interests.

Open Orphan acquired both Venn Life Sciences and hVIVO at what it considers to be attractive valuations. In hVIVO alone, there had been £113m invested in the last six years and Open Orphan acquired it for £13m.

hVIVO has a 24-bed quarantine clinic which is valued at an estimated £25m. Additionally, the onsite viral laboratory is valued at about £7m and the eight viral challenge study models are estimated to be valued at another £25m. No other challenge study provider in the world has such a comprehensive portfolio

The management team at Open Orphan have a clear growth strategy to create a highly specialised differentiated service provider for the pharma industry and will continue to take advantage of the fragmented marketplace in Europe.

The combined businesses will deliver cost synergies through the combination of two listed businesses and will create revenue growth opportunities through expanding its capabilities.



Porvair eyeing green opportunities

www.porvair.com

Many private investors may not have heard of **Porvair (PRV)**, a main market listed filtration specialist, but it is likely that they will have benefitted from this niche engineer's wide range of environmental products. They may also be interested in the substantial shareholder returns Porvair has delivered over the last 15 years, stewarded by an equally long-standing management team: CEO Ben Stocks and CFO Chris Tyler.

LONG TERM TRACK RECORD OF SHAREHOLDER VALUE CREATION

Some readers may remember Porvair from its IPO in 1988. Through the 1990s it was a listed polyurethane manufacturer, but that changed in 2003/4 when the chemicals businesses were sold and the management team altered course to concentrate on specialist filtration and environmental technologies. Since 2004 this strategy has been unchanged.

This strategic shift has been beneficial to shareholders. Over the course of the last five years, the group has delivered earnings per share (EPS) growth of 63% - a compound growth rate of 10% per year.

For shareholders, assuming dividends have been taken as cash, Porvair has delivered compound growth of 13% since 2004; 26% since 2009; and 19% since 2014. The total shareholder return – which assumes dividends are re-invested, is equally impressive.

INTRODUCING... PORVAIR

AN ENGINEERING COMPANY FOCUSED ON FILTRATION PRODUCTS WITH ENVIRONMENTAL APPLICATIONS

Shareholder return assuming dividends taken as cash	Percentage return	Compound annual growth rate
Since 2004	515%	13%
Since 2009	860%	25%
Since 2014	127%	18%

Uses share price at 30.12.19 of 632p

Despite its impressive performance, Porvair remains a relatively small company with revenue for the year to 30 November of £145m and a market capitalisation of around £340m; the company sees plenty of opportunity ahead. The large global markets Porvair serves are driven by ever-tightening environmental, regulatory and safety standards and the company operates in specialised sector niches.

DEMAND DRIVEN BY GLOBAL TRENDS

Porvair's 2003/4 re-positioning to specialist filtration and environmental technologies set the business to benefit from global megatrends:

- **Tightening** environmental and safety regulations, particularly around emissions control and clean water
- **Growth** in the volume of analytical activities in life science laboratories
- **The increasing** demand for air travel from an expanding global middle class

- **The growth** in aluminium consumption driven by light-weighting in transport and the replacement of plastics
- **The drive** for quality and process efficiencies in manufacturing.

STRATEGY

Porvair's straightforward strategy is to focus on four regulated markets with well understood long-term growth prospects; and to supplement the resulting organic growth with consistent new product development and occasional acquisitions. Geographically, the company stays close to its customers: Aerospace and Laboratory work is mainly in the UK and US and clean water is more active in China. The business is cash generative and re-invests in capex to fuel organic growth and acquisitions when clear investment criteria are met. It has a progressive dividend policy, paying 5 pence per share in 2019.

THREE DIVISIONS

Porvair is organised into three divisions: Aerospace & Industrial; Laboratory; and Metal Melt Quality.

In **Aerospace**, Porvair supplies almost every commercial airframe in the industry with fuel, hydraulic or coolant filters. Products are designed and tested by Porvair prior to customer qualification.

Stringent accreditation and regulatory requirements in the aviation industry act as barriers to entry and most filters will be replaced regularly as part of a maintenance cycle.

The **Industrial** segment covers a range of products, the largest being industrial process filters for emissions control; nuclear containment for health and safety; gasification filters in clean energy; and maritime filters to meet shipping regulations. As with Aerospace, design engineering is a key skill and product qualification acts as a strong barrier to entry.

The **Laboratory** division serves two principal segments: environmental laboratories for clean water; and sample preparation for analytical science. Porvair manufactures proprietary filtration media for life science applications along with a range of laboratory consumables and instruments. As in the Aerospace and Industrial division, Porvair can develop and test products in its own laboratories prior to offering to customers for qualification.

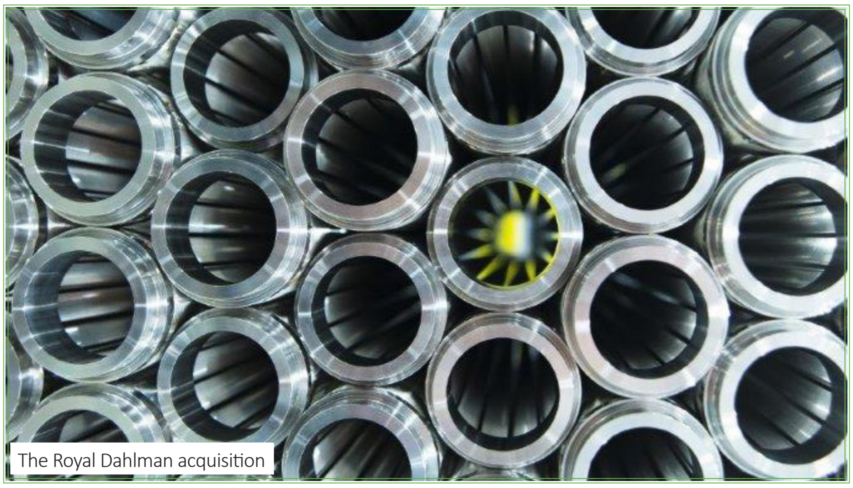
Metal Melt Quality As they are smelted, metals must be filtered to remove inclusions. Porvair makes a range of patented products for molten aluminium, ductile iron and Ni-Co alloys. The company is particularly strong in aluminium filtration, with a plant in China which is growing as the Chinese aluminium industry moves to higher grade alloys.

All three divisions share the same core attributes: the physics of filtration engineering; product design skills; industrial accreditation; and manufacturing quality processes. There are high levels of recurring revenues with at least 80% of Porvair's output being consumable. Aluminium and most life science filters are used once for example, while most industrial filters are replaced at pre-determined intervals, with replacement parts specified by the user.

MANUFACTURING

Porvair operates in 15 locations across the world, with seven sites in the US accounting for half of group revenues. Others are in the UK, Holland, Germany and China. Sites are mainly batch production with the company making thousands of different products each year with a focus on engineering tolerances, quality and margin. Five sites have clean room capability for life science, microelectronics and clean water products.

Porvair's aviation factories have AS9100revD and EASA type 21G quality accreditations



The Royal Dahlman acquisition

NEW PRODUCT DEVELOPMENT

The development of new products is core to the strategy, and while R&D expenditure runs at 3% to 4% of revenue, the company emphasises that its work is almost all development rather than research. Porvair works with its customers to develop incremental improvements in products they already use – making filters lighter, smaller or more efficient for example. A management process that works on a consistent pipeline of such projects allows the company to show a good track record of innovation and with it the differentiation needed to maintain margins and remain ahead of competitors.

ACQUISITIONS

Porvair has made 15 acquisitions in the last 20 years. The group's preference is for bolt-on deals that enhance either product technology, routes to market, or both. Typically the acquired company will see an injection of capital in the first three years to expand capacity and enhance productivity. In the US Porvair bought Keystone Filter in 2018 and JG Finneran in 2017. In Europe, Royal Dahlman was acquired in 2019 and Rohasys in 2017.

The Royal Dahlman acquisition is a good example of what Porvair looks for in a transaction. Based outside Rotterdam, Dahlman brings engineering expertise in niche petrochemical applications such as slurry oil filtration and flue gas emission control where regulations are tightening. It also has strong routes to market for industrial filters in the Netherlands, Benelux and southern Germany. Post integration, which is due to complete in 2021, the combined business will have a larger engineering and sales team; a much wider product range; and the ability to bring Dahlman manufacture in-house. Porvair sees Dahlman as an excellent base from which to expand its presence in Europe, a huge filtration market that in the financial year running to 30 November 2019 accounted for only 15% of group revenues.

All acquisitions since 2005 have been financed from free cash flow and Porvair manages its balance sheet conservatively. At 30 November 2019, the company had net cash of £4m and dividend cover of 5x.

Since 2014, cash generated from operations has been £71m with £51m reinvested in capex and acquisitions.

EXPERIENCED AND RELIABLE MANAGEMENT TEAM

Porvair's senior executive team have all been with the business for over a decade, and the board is chaired by the experienced John Nicholas. With a low-cost head office of six people on a Kings Lynn industrial estate, its philosophy is to allow divisional management teams high levels of operating autonomy within a UK corporate governance framework. The principal financial target for each division is cashflow prior to capex and the group, after dividends, tax and pension contributions, generates free cash flow of £6m to £8m per year.

The company does not make predictions for the future, but evidence from the last 15 years suggests that its strategy and management style is working well and that Porvair is set to deliver further shareholder returns and growth.