STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 22 / ISSUE 11 / 19 MARCH 2020 / £4.49

SHARES

WE MAKE INVESTING EASIER

THE BEST ESG INVESTMENTS

FINDING STOCKS AND FUNDS THAT WILL HELP THE WORLD

MARKET SELL-OFF: WHAT TO BUY NOW, THE DIRECTORS BUYING SHARES & YIELDS ABOVE 10%

Reasons to stay optimistic despite falling markets

Your chance to buy good companies that should still be around for years to come

The speed at which markets have fallen has left investors feeling depressed with the state of their portfolios. Even thinking about taking a look at your ISA or pension can bring on a sense of anxiety. You are not alone in feeling this way.

Coronavirus has had a fast and hard impact, meaning very few investors were prepared for how markets reacted. In such times of sadness and worry, it is important to remain level-headed and optimistic about a resolution.

Communities should come together to help people in need. Central banks are trying to keep the markets functioning, governments are doing their best to help businesses stay afloat and healthcare providers are doing their very best to help sick individuals.

It's going to be a difficult few months ahead but hopefully the companies in which you're invested will still be around at the end of the year and also in many years to come.

Markets have now offered the biggest discount in many fantastic companies for nearly a decade. It's your chance to buy at 2012 prices. Indeed, many company directors are buying shares on price weakness, as we discuss in this article.

Before you make any new investments, please consider your own personal circumstances. There seems a real risk that jobs could be lost as a result of coronavirus disruption. No-one should consider putting more money in the markets now if they have lots of debts to clear and/or don't have a pile of cash to see them through emergencies.

Companies will need to have as much cash to hand as possible to see through the crisis and the same liquidity is also important for individuals. Dividends are likely to be pruned and share buybacks paused to help companies preserve cash. In a similar way, anyone worried about their job is going to cut back on their own spending.

Monday (16 March) saw a brutal sell-off in leisure companies including pubs company **Marston's**

(MARS) losing more than half its value in a single day. The idea that people are visiting pubs, gyms or restaurants less, and potentially not at all if the UK goes into more severe lockdown, has made investors panic about how earnings for these companies will be hit.

Marston's is heavily indebted and, like many other stocks in its same situation, the shares have tanked for fear that it won't be able to keep up debt repayments. In a normal situation it could sell more assets such as property to raise extra cash, but are there any willing buyers in this market?

It is certainly not a coincidence that many of the other big fallers on the UK stock market are companies drowning in debt, such as **Cineworld (CINE)** and **Tullow Oil (TLW)**.

If you are in a position to put more money into stocks and funds then we suggest you avoid all companies that could face financial distress, as per our article in the 12 March issue.

Earnings are going to be hit across multiple industries, thus creating a divide in the world of business. The weaker ones will fall by the wayside and the strongest ones will survive. Your goal as an investor is to be exposed to the latter camp.

By **Daniel Coatsworth** Editor

When 1.4 billion consumers buy local, that's a global opportunity

FIDELITY CHINA SPECIAL SITUATIONS PLC

If you want to take full advantage of the incredible growth of China's middle classes and a seismic shift towards domestic consumption, you need real on-the-ground expertise.

As the UK's largest China investment trust, we can capitalise on an extensive, locally based analyst team to make site visits and attend company meetings. This helps us find the opportunities that make the most of the immense shifts in local consumer demand.

PAST PERFORMANCE

	Feb 15 – Feb 16	Feb 16 – Feb 17	Feb 17 – Feb 18	Feb 18 – Feb 19	Feb 19 – Feb 20
Net Asset Value	-0.8%	45.4%	30.8%	-11.2%	5.2%
Share Price	-5.4%	52.0%	32.5%	-8.3%	3.1%
MSCI China Index	-17.6%	46.9%	32.5%	-8.3%	7.6%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 29.02.2020, bid-bid, net income reinvested.
©2020 Morningstar Inc. All rights reserved. The MSCI China Index is a comparative index of the investment trust.

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

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

To find out more, go to fidelity.co.uk/china or speak to your adviser.

MONEY OBSERVER RATED FUND 2020

ELITE FUND rated by FundCalibre.com

Fidelity INTERNATIONAL

Source for consumers: The World Bank as at 15 July 2019. The latest annual reports and factsheets can be obtained from our website at **www.fidelity.co.uk/its** or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity. Fidelity Investment Trusts are managed by FIL Investments International. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM0320/26932/SSO/0620

Contents

VIEWING SHARES AS A PDF?

CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION

DISCLAIMER

IMPORTANT

Shares publishes information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments published in Shares must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. Shares, its staff and AJ Bell Media Limited do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

Members of staff of Shares may hold shares in companies mentioned in the magazine. This could create a conflict of interests. Where such a conflict exists it will be disclosed. Shares adheres to a strict code of conduct for reporters, as set out below.

1. In keeping with the existing practice, reporters who intend to write about any securities, derivatives or positions with spread betting organisations that they have an interest in should first clear their writing with the editor. If the editor agrees that the reporter can write about the interest, it should be disclosed to readers at the end of the story. Holdings by third parties including families, trusts, self-select pension funds, self select ISAs and PEPs and nominee accounts are included in such interests.

2. Reporters will inform the editor on any occasion that they transact shares, derivatives or spread betting positions. This will overcome situations when the interests they are considering might conflict with reports by other writers in the magazine. This notification should be confirmed by e-mail.

3. Reporters are required to hold a full personal interest register. The whereabouts of this register should be revealed to the editor.

4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for seven working days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within seven working days after the on-sale date of the magazine.

Janus Henderson exists to help you achieve your long-term financial goals.

IN PURSUIT OF THE PERFECT BLEND

Investment Trusts, managed by Janus Henderson

The perfect cup of coffee depends on a perfect blend of beans, water and the skill of the barista.

The perfect investment trust works in much the same way; blending together a mix of investments aiming to achieve the desired outcome of capital growth, a regular income or both.

Our history dates back to 1934, but today we manage 13 investment trusts across a wide range of sectors, geographies, regions and markets.

Your capital is at risk.

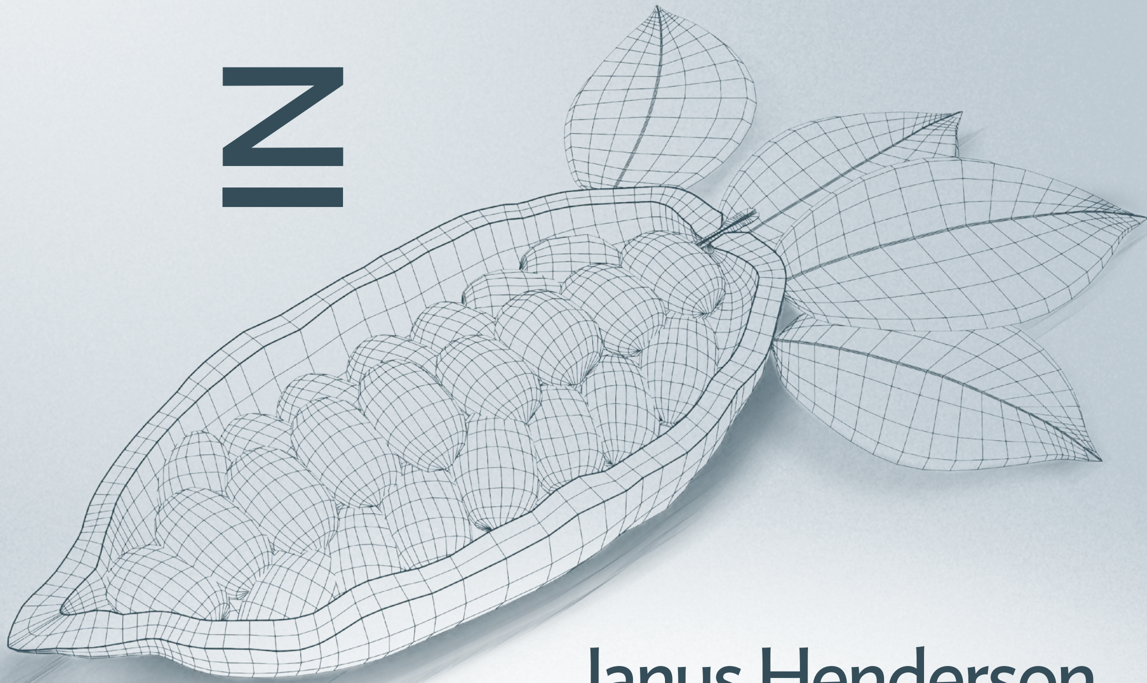
To see our range of investment trusts visit
www.hendersoninvestmenttrusts.com
call us on

0800 832 832

or email us at
support@janushenderson.com

Find us on Facebook

@JHiTrustsUK



For promotional purposes

Janus Henderson
—KNOWLEDGE. SHARED—

Issued in the UK by Janus Henderson Investors. Janus Henderson Investors is the name under which Janus Capital International Limited (reg no. 3594615), Henderson Global Investors Limited (reg. no. 906355), Henderson Investment Funds Limited (reg. no. 2678531), Henderson Investment Management Limited (reg. no. 1795354), AlphaGen Capital Limited (reg. no. 962757), Henderson Equity Partners Limited (reg. no. 2606646), Gartmore Investment Limited (reg. no. 1508030), (each incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE) are authorised and regulated by the Financial Conduct Authority to provide investment products and services. Telephone calls may be recorded and monitored. © 2017, Janus Henderson Investors. The name Janus Henderson Investors includes HGI Group Limited, Henderson Global Investors (Brand Management) Sarl and Janus International Holding LLC.

H034018/0218

Making sense of the latest market movements

US suffers its biggest sell-off since 1987 as response to crisis escalates

There is a scramble to work out the extent of the coronavirus impact and how much of it has been priced in by markets as investors react to a rapidly increasing number of global infections.

The US market really fell over on 16 March, giving back all of the gains from a big rally on 13 March and then some as it posted its biggest fall since 1987.

This rout reflects the escalating coronavirus crisis and the measures being taken across the world to combat it. There is growing uncertainty over how long the world will be dealing with the crisis and how long the curbs on everyday life taken to contain it will persist.

QUANTIFYING THE HIT

Recent economic figures from China offered some insight into the scale of the hit to an economy in lockdown mode.

Consensus forecasts were for a 3% fall in industrial production, a 2% drop in fixed asset investment and a 4% contraction in retail sales. The actual readings were several magnitudes worse than that, at -13.5%, -24.5% and -20.5% respectively.

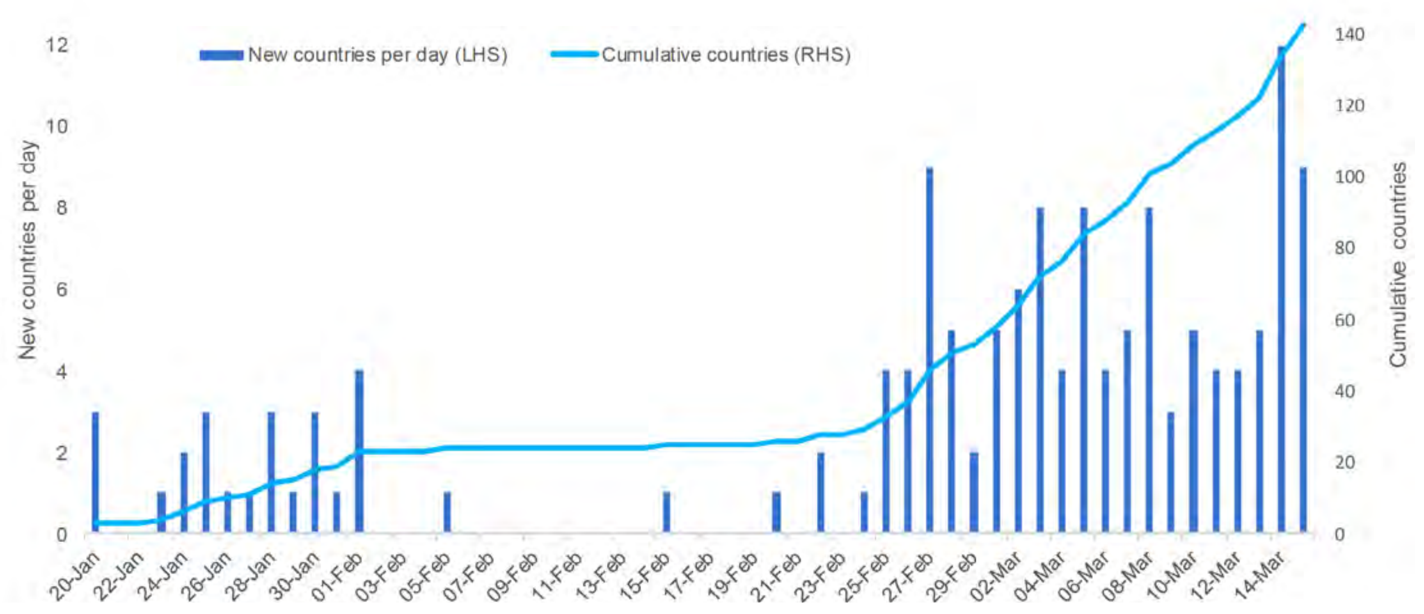
Equities have continued to fall in value despite the US Federal Reserve cutting rates to near zero and pumping trillions of dollars of liquidity into the financial system, other central banks in the world also taking action, and governments stepping in with fiscal measures.

Kerstin Braun, president of Stenn Group, an international provider of trade finance, thinks the Fed may have acted too hastily. She said: 'The US Federal Reserve's decision to cut interest rates to 0% is premature and makes almost zero sense. We are currently in the midst of the peak of coronavirus panic, so this move only serves to further undermine investor confidence.'

WHICH SECTORS AND COMPANIES HAVE BEEN MOST AFFECTED?

The airlines continue to suffer as we discuss in a separate article. The following table shows the best and worst performing sectors since selling began

NUMBER OF COUNTRIES WITH CONFIRMED COVID-19 CASES



in earnest on 20 February. We also look at some of the areas which might be better positioned in the current environment in this article.

An update from catering giant **Compass (CPG)** provided an insight into the impact of coronavirus. It is expects half-year operating profit to be up to £225m lower than expected due to containment measures, and these only began to have an impact from the end of February onwards as major events were cancelled and schools began to be shut down.

Some companies are responding to current events by suspending dividend payments. The bookmakers are being hit by lack of almost any sporting events for punters to bet on, so **William Hill (WMH)** has put its payout on hold. In the retail sector **Shoe Zone (SHOE:AIM)** has also deferred its dividend.

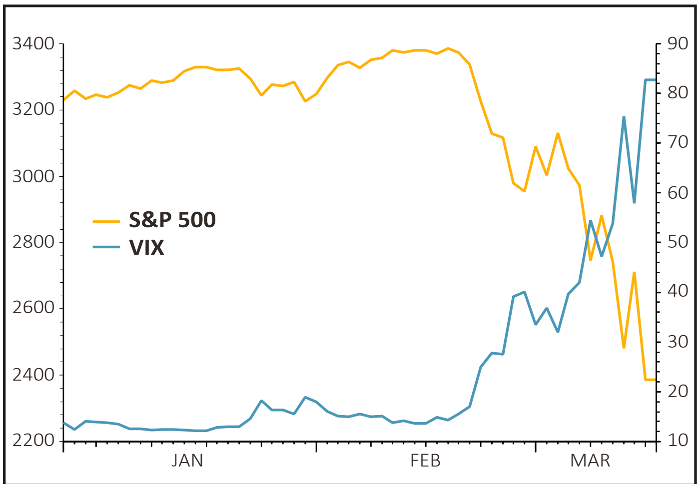
WHAT WILL HAPPEN NEXT?

Investors will be looking for signs that actions taken on social distancing are proving effective, and they may be hoping that the summer months will provide some relief.

Morgan Stanley strategist Andrew Sheets believes it is worth watching market volatility closely as in previous sell-offs over the last decade the market bottomed a little while after expected volatility came down.

He says: 'The first thing markets need is to become comfortable with the level of uncertainty (volatility), and only then can they become comfortable with the level of prices. Keep an eye on volatility – it may need to peak first.'

The VIX index continues to spiral for now, hitting 83.56 on 16 March, not far short of its intra-day high of 89.53 reached on 24 October 2008 at the height of the financial crisis.



SECTORS HOLDING UP BEST AND FARING WORST AMID CORONAVIRUS

BEST PERFORMERS	
FTSE 350 Sector	FALL SINCE 20 FEB 2020
Food & Drug Retailers	-12.2%
Pharmaceuticals & Biotechnology	-14.7%
Personal Goods	-19.2%

WORST PERFORMERS	
FTSE 350 Sector	FALL SINCE 20 FEB 2020
Travel & Leisure	-55.6%
Oil Equipment, Services & Distribution	-53.9%
Automobiles & Parts	-50.3%

Source: SharePad. Data to 17 March 2020

SIGNS OF HOPE FROM CHINA?

AN INTERESTING FEATURE of the latest trading update from Primark owner **Associated British Foods (ABF)** was that the Chinese supply chain issues which had dominated a 24 February announcement had flipped.

Supply shortages are now expected to be minimal as most of its factory suppliers reopen. The problem now is in Europe where stores are being shuttered.

Likewise consumer electronics firm Apple, which is closing all its shops outside China, is reopening those it has inside the country.

That is because Chinese authorities appear to have put a lid on the coronavirus outbreak for now. On 16 March the country reported just one new domestic case (although it is seeing an increasing number of cases imported from abroad).

The gradual resumption of operations in China could help ease supply chain issues for businesses which source goods from the country but also as a sign of what might be possible once the outbreak is under control in Europe and the US.

Banks face mounting challenges from low rates and coronavirus

Radical changes dictated by central banks and governments make the sector unappealing

On balance, decisions this month by the US Federal Reserve and the Bank of England to slash interest rates in order to help prop up their respective economies in the face of slowing growth – and the threat of a recession due to the spread of coronavirus – are bad news for the banking sector.

While on the one hand interest rate cuts and fiscal stimulus may help avoid a flood of corporate bankruptcies and an increase in bad loans, on the other hand it makes it a great deal harder for banks to generate a profit on lending.

Banks are likely to be encouraged by governments to make loans to businesses who don't want them or can't afford them, on a margin where they can't make any money. Banks then won't be allowed to pull the plug if or when the loan goes sour.

In the US, mortgage refinancing applications surged 80% in the week following the Fed's 'emergency' 0.5% interest rate cut, which is great news for the economy but bad news for banks. It has since cut rates even more.

Refinancing by its nature doesn't generate additional revenues – just the reverse in fact. Homeowners are renegotiating their mortgages on a lower interest rate which for the banks means a lower revenue stream from the same customer base.

In the UK, banks are already struggling with net interest margins – the difference between the interest rate they can charge on loans and the rate they pay out on deposits – as low as 1.5%, largely due to fierce competition for new mortgage lending. A 0.5% cut in interest rates is a bitter blow to their hopes of increasing their profitability.

We selected **Lloyds (LLOY)** as one of our top picks for 2020; sadly the dramatic cut in interest rates changes the investment case. It is going to be a long slog to recover the recent share price losses and under the circumstances we are no longer bullish about the stock.

Another threat to banks, according to ratings agency Standard & Poors, is a weakening of their loan book quality as the effect of coronavirus will reduce global travel and factory output, dampening demand.

That view is echoed by Scope Ratings which says that 'asset quality deterioration seems likely' if European governments respond to the coronavirus threat with 'draconian measures that undermine growth', a scenario which it views as increasingly likely.

Marco Troiano, deputy head of the financial institutions team, adds: 'Slower volume growth, lower investment banking revenues and higher loan defaults should all be anticipated at this point.'

Will airlines and holiday companies survive the coronavirus fallout?

Most London-listed travel companies have strong balance sheets and may survive a shutdown, but TUI's huge debt leaves it vulnerable

Airlines and holiday companies face a precarious future and there's no guarantee they'll survive what could be a long-term travel freeze and slow recovery. However, the London-listed operators apart from **TUI (TUI)** look better placed than their European rivals.

EasyJet (EZJ), **Wizz Air (WIZZ)** and **Ryanair (RYA)** all say they are in a strong financial position. But as British Airways chief executive Alex Cruz told employees last week, in these troubled times for aviation, 'airlines with a weak balance sheet, or carrying large debts, are facing a dire future'.

For some international airlines like Norwegian Air, SAS, Cathay Pacific and Korean Air, the future looks incredibly bleak.

Airlines are now dramatically reducing capacity and grounding large numbers of planes due to travel restrictions. Cruise companies are also scaling down operations.

Analysts at Citi have calculated that a three-month shutdown would leave Ryanair's net debt-to-earnings at a multiple of 1.2 and EasyJet's at 1.9, with **International Consolidated Airlines (IAG)** having a ratio of 3.4. Generally a figure below 3.5 is deemed to be acceptable.

By contrast, their European counterparts like Air France-KLM would have a net debt-to-earnings ratio of 7.7, or 12.4 in the case of Lufthansa.

Dart Group (DTG:AIM), which owns the Jet2 airline and package holiday company, has been the biggest faller among London-listed airline stocks in share price terms, plunging 75% year-to-date.

It has suspended all flights to Spain with the country on lockdown. It's a big blow to Jet2, with Spain accounting for half its seat total.

The big concern among the London-listed travel firms is TUI, which unlike the aforementioned companies is also involved in the embattled cruise industry.

The Anglo-German tour operator has around €5bn in debt, and according to the *Financial Times*, the cost of insuring that debt has risen fourfold since mid-February.

TUI says it has €1.4bn in cash and available facilities on its balance sheet, but Jefferies analyst Becky Lane previously highlighted that a large amount its cash would be from customer deposits that might have to be refunded.

The company has applied for state aid guarantees until normal operations are resumed, but its future is far from certain.

Airline stocks year-to-date

Company	Share price
Dart Group	-75%
TUI	-72%
IAG	-62%
EasyJet	-60%
Wizz Air	-45%
Ryanair	-40%
Lufthansa	-41%
Air France KLM	-58%
United Airlines	-60%
Delta	-40%

Source: Shares

Sectors seeing increased demand as a result of coronavirus

Electronic goods sellers, utility companies, gaming providers and more could see an uptick in demand

The extent of the economic fallout from consumer self-isolation is becoming palpable with share prices in the retail, leisure and hospitality sectors falling sharply. However the enforced change in behaviour is having a positive impact in some areas.

Dixons Carphone (DC.), **AO World (AO.)** and John Lewis have all talked about seeing an increase in demand for electrical goods including sales of freezers, small domestic appliances and laptops as customers prepare to work for home and/or staying indoors for a long period.

Increasing use of video conferencing services may result in some people needing to upgrade their broadband services to cope with the extra data load.

BT (BT.A) said it would be able to cope despite worries of residential bottlenecks causing blackouts or slower speeds for users.

Last week analysts at HSBC argued that the coronavirus could end the 'curse on telcos' by underlining their defensive nature, based on steady subscription revenue and growing data demand. However, numerous voice networks in the UK went down on 17 March as the telcos struggled to handle increased demand.

Broker Jefferies noted in a recent report that it expects the gaming industry to see a boost to revenues from increased time spent online as well as attracting new users as a result of enforced home isolation.

However, this view was tempered by the bleaker outlook for jobs and consumer spending should the global economy see a recession in the next few months.

Cinema chains are starting to close their doors temporarily which could drive increased demand for streaming services from US-listed stocks Netflix, Disney and Amazon.

> "There is an increase in demand for electrical goods (freezers, small domestic appliances and laptops) as customers prepare to work for home and/or staying indoors for a long period"

Another consequence of working from home is increased electricity, gas and water consumption. If people follow the protocols of washing hands 20 times a day, and given that smart metering has become widespread, then water bills should see a spike for those on a meter.

In addition, heating bills will be higher as households use multiple computers and televisions for hours during the day when they would otherwise be idle.

National Grid (NG.), **SSE (SSE)**, **United Utilities (UU.)** and **Severn Trent (SVT)** have seen their share prices outperform the market by around 15% over the last month, with SSE seeing its shares up 3% in absolute terms. Soap manufacturer **PZ Cussons (PZC)** has also seen its shares outperform the market by 19% over the last month.

Some of these emerging trends will probably peter out once the emergency measures are withdrawn, while some, like hand sanitation and working from home, will become more ingrained and 'sticky', providing a more sustainable boost.

Never from concentrate

When it comes to your ISA, we don't think it's a good idea to squeeze all your income from just a few stocks.

FP Octopus UK Multi Cap Income Fund has blended small, medium and large UK companies to become the best performing fund in its sector, over one year.

The value of your investment, and any income, can fall or rise. You may get back less than you invest. Smaller companies can fluctuate more in value and they may be harder to sell.

Discounted OCF of **0.45%***

Available in **ISA**

octopus investments

A brighter way

*** The discounted Ongoing Charges Figure (OCF) of 0.45% is available if you invest before the fund's assets reach £50m. After this point the OCF will be 0.90%**

	31/12/2018 31/12/2019	31/12/2017 31/12/2018	31/12/2016 31/12/2017	31/12/2015 31/12/2016	31/12/2014 31/12/2015
FP Octopus UK Multi Cap Income S Acc	34.0%	n/a	n/a	n/a	n/a
FTSE All Share	19.1%	-9.4%	13.1%	16.7%	0.9%
IA UK Equity Income sector average	19.8%	-10.5%	11.3%	8.8%	6.4%

Past performance is not a guarantee of future returns.

Fees are deducted from capital which will increase the amount of income available for distribution. However, this will erode capital and may hinder capital growth. Before investing you should read the Prospectus, the Key Investor Information Document (KIID) and the Supplementary Information Document (SID) as they contain important information regarding the fund, including charges, tax and fund specific risk warnings and will form the basis of any investment. The Prospectus, KIID and application forms are available in English at octopusinvestments.com. Issued by Octopus Investments Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 33 Holborn, London, EC1N 2HT. Registered in England and Wales No. 03942880.

Source: Lipper, 31/12/14 to 31/12/19. Returns are based on published dealing prices, single price mid to mid with net income reinvested, net of fees, in sterling.

Load up on Tesco shares as stockpiling boosts sales

The supermarket should be a rare winner during coronavirus epidemic

TESCO BUY
(TSCO) 214.5p
Market value: £20.7bn

In the midst of panic selling of consumer discretionary stocks, the supermarket sector has been remarkably resilient as investors come to appreciate that whatever else is going wrong in the world, we all still have to eat.

While pubs, restaurants, hotels and cinemas have seen a sharp fall in customers, supermarkets have been inundated as shoppers rush to fill their cupboards with dried pasta, UHT milk and loo roll.

As the market leader with extensive supply chains, in our view **Tesco (TSCO)** is best placed not only to cope with sudden surges in demand but also to see off the threat of the discounters with their very limited assortment of goods.

Since the acquisition of Booker in late 2017, Tesco has seen a steady increase in sales and margins helped by a focus on more profitable lines, a simplification of the business and a greater emphasis on capital discipline.

Earlier this year it agreed the sale of its Thai and Malaysian operations for c£8bn, equivalent to 12.5 times earnings before interest, tax, depreciation and amortisation (EBITDA), above analysts' forecasts. There is also speculation that it is readying the sale of its Polish subsidiary, to free up further resources.

Shareholders will get £5bn of the sale proceeds to be shared as a special dividend while £2.5bn is going into Tesco's pension scheme to eliminate the current shortfall. The firm estimates it will see a free cash flow benefit of £260m a year from 2021 as a result.

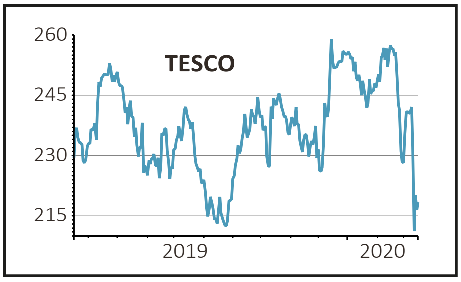
Capital spending on its stores is expected to fall from the recent range of £1.1bn to £1.4bn, to £900m to £1.2bn, which will further improve profits and shareholder returns, while leverage is set to remain modest.

Grocery spending has been rising steadily for the past six months, with a notable acceleration since the general election as volumes and prices both show an increase.

While footfall on the high street and at retail parks fell in February due to the combination of coronavirus and three big storms, all of which arrived over a weekend, shoppers continued to stock up at supermarkets despite there being fewer promotional deals.

Tesco's 'owned brands' – newly-created 'heritage' ranges like Boswell Farms and Creamfields Dairy – are increasingly popular with consumers who are looking for quality as well as value.

It is also expanding further in the 'food-to-go' logistics market with the acquisition of Best Food which services Burger King, KFC and Pret a Manger and generates £1.1bn a year in turnover.



CAPITAL AT RISK

Diversify

for good and growing income opportunities.

The Diverse Income Trust plc. Aiming to deliver growing income across a broad range of UK companies.

The Diverse Income Trust plc's investment objective is to provide income and capital growth over the long term. It aims to achieve this by investing in the shares of companies listed or traded on the UK stock market.

Since launch, The Diverse Income Trust plc has increased its income payable year-on-year by 8.8%.

RISKS

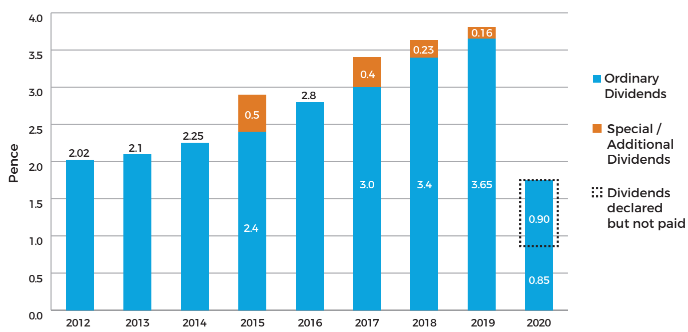
- **The value of shares and the income from them are not guaranteed and can go down as well as up.**
- **Past distributions of dividends are not a guide to future distributions. The level of income paid by the trust may therefore fluctuate and is not guaranteed.**

INVESTMENT WEEK INVESTMENT COMPANY OF THE YEAR AWARDS 2018 WINNER UK INCOME

MONEYOBSERVER RATED FUND 2019

Ratings are not a recommendation.

Income since launch (pence per share)



Note: The dividend for the period to 31 May 2012 covered 13 months, and the annualised dividend was 2.02p. Therefore, the underlying growth of the dividend in the year to 31 May 2013 was 4%. Only the four interim dividends at 31 May 2015 have been included for comparative purposes. The final dividend that was paid that year was excluded because it was merely the first interim dividend for the fourthcoming year that was redesignated.

Find out more

premiermiton.com/diverseincome

powered by Premier Miton INVESTORS

IMPORTANT INFORMATION

Chart source: Link Asset Services. Investors should read the Trust's product documentation before investing, including the PRIIPs Key Information Document (KID), the latest Annual Report and Accounts and the Alternative Investment Fund Managers Directive (AIFMD) Disclosure Document as they contain important information regarding the Trust, including charges, tax and specific risk warnings and will form the basis of any investment. We are unable to give financial advice. If you are unsure about the suitability of an investment, please speak to a financial adviser.

Financial Promotion issued by Premier Miton Investors, a trading name of Premier Fund Managers Limited (registered no. 02274227), Premier Portfolio Managers Limited (registered no. 01235867) authorised and regulated by the Financial Conduct Authority. Registered address: Eastgate Court, High Street, Guildford, GU1 3DE. Miton Asset Management Limited (registered no. 1949322) and Miton Trust Managers Limited (registered no. 4569694). Registered address: 6th Floor Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB authorised and regulated by the Financial Conduct Authority.

MFP20/098

Rare opportunity to buy a quality biotech trust for a big discount

International Biotechnology Trust is very appealing in the current market environment

With the world paying more attention to health issues, drug companies are likely to be more in demand with investors as the year progresses. There is a big opportunity to buy cheaply now before the tide turns.

Large cap biotechnology companies are trading at one of their largest valuation discounts to the S&P 500 index in decades. The one-year forward price-to-earnings (PE) ratio has fallen from 26 times in 2012 to the current 10 times, as the sector has been de-rated, with share prices lagging earnings growth.

International Biotechnology Trust (IBT) is a good way to get exposure to an industry which has historically grown faster than the economy due to long-term sustainable factors, and which is currently trading at a large discount.

At the peak over the past year the investment trust traded at 5.8% premium to net asset value. Now it is trading on an absolute bargain discount to NAV of 18.5%. It pays 4% of its assets as a dividend, semi-annually. The manager is also buying back shares.

The trust is managed by an experienced team which has been investing in the sector for 30 years. The strategy has a few

INTERNATIONAL BIOTECHNOLOGY TRUST
BUY
(IBT) 457p

Market cap: £195m

features which gives the fund's assets defensive characteristics, to add to the clear growth opportunity.

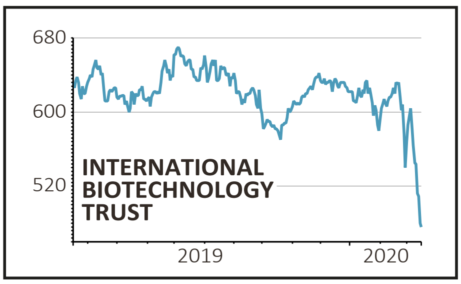
Unlike some peers the IBT team mitigate specific risks around drug trials by reducing exposures ahead of key trial data releases, as well as using proprietary valuation techniques to reduce positions where the risk/reward is considered unattractive.

The other key defensive feature of the strategy is the diversification across companies at different stages of commercialisation. Of the portfolio's 101 holdings only 23% are exposed to developmental stage companies, compared to around 40% of the companies in the portfolio which are profitable.

The portfolio is diversified across therapeutic areas with a particular focus on drugs and therapies which have pricing power, making the portfolio robust. Oncology (cancer) represents around a third of the portfolio, rare diseases a quarter and central nervous system drugs another 11%.

The trust's second biggest holding is US life sciences company Gilead, which owns a very stable HIV franchise, and its Ebola drug remdesivir is in human trials for the coronavirus in Wuhan, ground zero for the outbreak.

IBT provides exposure to both income and growth and the current market sell-off provides an opportunity to buy the trust at a really good price.



SENECA
INVESTMENT MANAGERS

SPRING CLEANING THIS YEAR?

Take your mind off your funds and we'll do the polishing

Seneca Global Income & Growth Trust plc aims:

- A total return of at least CPI plus 6 percent per annum after costs, over a typical investment cycle*
- Aggregate annual dividend growth at least in line with inflation
- Low volatility

Find out more about Seneca Investment Managers at senecaim.com or call us on 0151 906 2450

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

*Seneca Investment Managers Ltd defines a typical investment cycle as one which spans 5-10 years, and in which returns from various asset classes are generally in line with their very long term averages. There is no guarantee that a positive return will be achieved over this or any other period. There is no guarantee that the above aims will be achieved. Seneca Investment Managers Ltd does not offer advice to retail investors. If you are unsure of the suitability of this investment, take independent advice. Before investing you should refer to the Key Information Document (KID) for details of the principle risks and information on the trust's fees and expenses. Net Asset Value (NAV) performance may not be linked to share price performance, and shareholders could realise returns that are lower or higher in performance. The annual investment management charge and other charges are deducted from income and capital. The KID, Investor Disclosure Document and latest Annual Report are available in English at www.senecaim.com. Seneca Investment Managers Limited is the Investment Manager of the Trust (0151 906 2450) and is authorised and regulated by the Financial Conduct Authority and is registered in England No. 4325961 with its registered office at Tenth Floor, Horton House, Exchange Flags, Liverpool, L2 3YL All calls are recorded. FP20 028

SMART METERING SYSTEMS
(SMS:AIM) 612p

Gain to date: 30.2%
Original entry point:
Buy at 470p, 24 October 2019

THE UNCORRELATED RETURNS potential offered by **Smart Metering Systems (SMS)** have been reinforced.

It posted (17 Mar) a big jump in 2019 revenue to £114m and earnings before interest, tax, depreciation and amortisation (EBITDA) to £50.3m, around 4% ahead of market expectations.

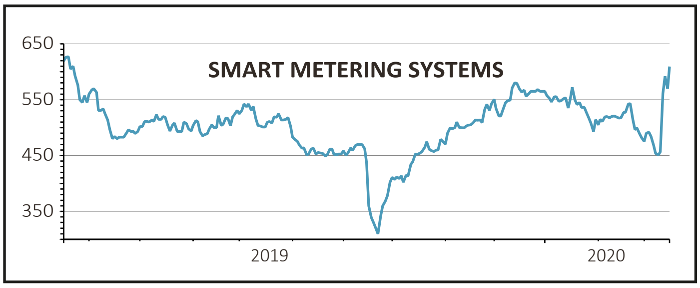
That came after SMS sold a minority of its meter assets to an investment management company and netted £291m, or £282m in cash after expenses, in a deal that values its overall meter portfolio at an attractive 16.4x EBITDA, and allows the company to pay off its existing debt.

That deal will also enable SMS to dramatically hike its dividend in 2020 to 25p per share, payable quarterly, compared to 6.88p per share for 2019.

SMS chief executive Alan Foy told *Shares*: 'We have a very strong balance sheet and no debt. We're focusing on installing 2m smart meters by the end of 2024.

'We'll be using our cash, along with a £300m revolving credit facility, solely to invest in gas and electricity meters to satisfy our order book.'

Regarding the coronavirus outbreak, Foy said that while the near-term outlook is uncertain and 'in the next two to four months we may not fit as many meters as we would like', its installation target to the end of 2024 remains unchanged.



SHARES SAYS:
Keep buying.

SOFTCAT
(SCT) 998P

Gain to date: 3.9%
Original entry point:
Buy at 959.8p, 1 August 2019

SOFTWARE AND IT services outfit **Softcat (SCT)** delivered a reassuring set of half-year results on 17 March and said it wasn't really being affected by the coronavirus outbreak.

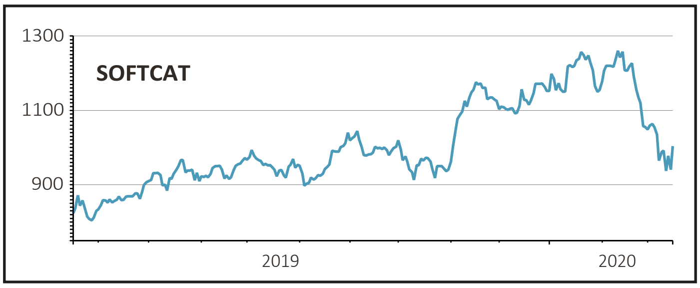
Revenue climbed 21% to £524.1m as the company added 4.2% more customers, while boosting average gross profit per customer by 12%. Pre-tax profit rose 19% to £40.5m.

Softcat declared an interim dividend of 5.4p per share, up 20% year-on-year. On the outlook, the company said the second half of its financial year had started well, with no material impact from the spreading coronavirus.

However it acknowledged the crisis created uncertainty for the remainder of its financial year.

Numis analyst Tintin Stormont says the company is well placed to withstand the impact of coronavirus in the short-term and sees potential opportunities down the track.

He adds: 'Medium-term, we believe this experience is likely to have a profound shift in how businesses view the importance of IT not only in ensuring business continuity but finding effective ways of working.'



SHARES SAYS:
Softcat hasn't escaped the market sell-off this year, yet the stock has only fallen to levels last seen in October 2019 which is nowhere near as bad as many other companies. We remain positive on the shares.

ADVERTISING FEATURE

WisdomTree®

BATTERY TECHNOLOGY

THE MEGATREND TO "POWER" YOUR ISA

The world as we know it is changing at a rapid pace. Over the next decade, we expect 5 key megatrends to shape our future. The coexistence of two key megatrends – **technological innovation** and **climate change** are driving the advancement of battery technology. This is enabling a radical energy transition as it is solving the problem of lowering global carbon emissions alongside reaping the benefits of rapid technological innovation.

Impact of Policy Change

Political will has been the cornerstone of the shift to electrification. The Paris Agreement's long-term temperature goal is to limit the increase in global average temperature to well below 2 degrees °C above pre-industrialised levels and to pursue efforts to limit the increase to 1.5degrees °C, recognising that this would substantially reduce the risks and impacts of climate change.

Batteries are enabling the energy transformation story

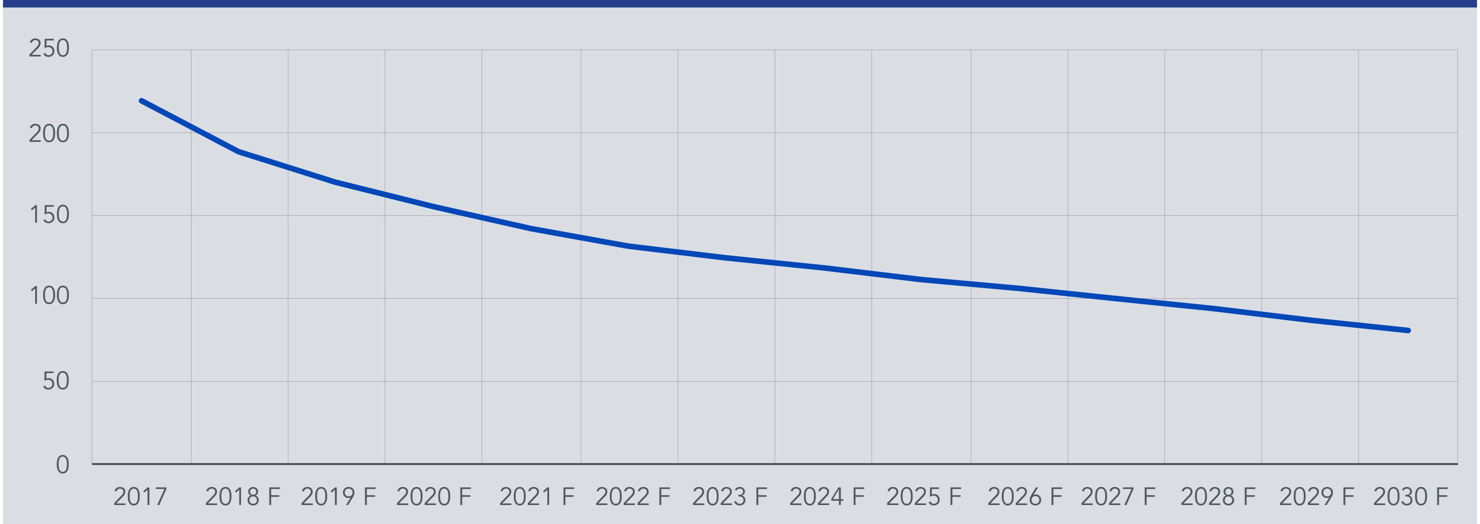
The most dominant solution for battery technology today is Lithium ion batteries (LiB), first developed by Sony in 1991. The reason for the dominance of Lithium ion batteries is due to its useful attributes such as high energy density, good charging and discharging properties. Initially they were used in small scale applications like consumer electronics – cell phones, laptops and e-bikes. Since then, their use in larger applications including electric vehicles (EVs) and storage in power markets is growing. EVs need a portable electricity source which batteries can provide. We expect EVs to be the strongest source of growth for batteries.

In the power markets, renewable sources of electricity including wind and solar are intermittent, which makes it difficult to match the demand for electricity with the instability in the supply of power from natural elements. Batteries enable the storage of excess power production which can be released at times of higher demand. Battery storage can help smoothen supply and improve grid stability.

Battery cost decline will augment demand

Cost declines are enabling battery usage in larger applications. Market competition accelerates improvements that lead to the reduction in battery prices. In the past decade we have witnessed an 80% decline in the cost of manufacturing batteries. Over the next decade, we expect to see another halving in the cost of batteries. According to Wood Mackenzie, 100 kilo watt hour (KwH) is another significant turning point when we expect to see 100KwH cost for battery production, to drive a surge in demand. That's the point when it will become very economical to implement into more applications.

COSTS OF BATTERIES ARE FALLING AND PROMOTING WIDER USAGE



Source: WisdomTree, Wood Mackenzie, forecasts from 2018. Please Note: $100/kWh is considered an important tipping point for battery adoption. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

- **For more insights about batteries and disruptive technologies, please visit: The WisdomTree BLOG**
- **To access a list of relevant thematic products within the AJ Bell Youinvest platform, please visit: AJ Bell Youinvest - Thematics**

This material is prepared by WisdomTree and its affiliates and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of the date of production and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by WisdomTree, nor any affiliate, nor any of their officers, employees or agents. Reliance upon information in this material is at the sole discretion of the reader. **Past performance is not a reliable indicator of future performance.**

Many stocks now offer yields above 10%

Is that an opportunity or is the market saying many companies' dividends are unsustainable?

Cineworld is the highest yielding stock

Investors whose main aim is to generate a steady income from their portfolio in order to cover regular outgoings will be less than pleased at the Bank of England's decision to cut base rates to 0.25% last week.

While the cut is intended to help businesses manage the expected economic slowdown caused by the spread of coronavirus, it also means that savers have to search even harder for reliable, income-generating assets, with the emphasis on reliable.

As Warren Buffett is fond of saying, when the tide goes out you see get to see who's been swimming naked. For the tide going out we can substitute coronavirus, and for those swimming naked we can substitute companies who are forecast to pay dividends they may now not be able to afford.

THE 12% CLUB

Using SharePad we screened the UK market looking at dividend yields based on forecast payments, free cash flow yields, the size of each firm's dividends compared to its cash flows, together with their net debt or net cash position. We restricted ourselves to companies worth more than £500m.

Thanks to the collapse in commodity prices, which preceded selling in equities, a significant proportion of the highest-yielding stocks in our screen are resources firms.

Of the 13 stocks with a theoretical dividend yield of 12% or more, no fewer than six fall into this category including oil giants **BP (BP.)** and **Royal Dutch Shell (RDSB)**.

UK stocks with forecast dividend yields of 10% or more

Name	Market cap (£m)	Net debt (£m)	Forecast dividend yield %
Cineworld	606	7,676	24.4
Petrofac	634	423	16.9
Micro Focus	1,416	4,339	16.2
Evraz	3,322	3,433	15.6
Ferrexpo	630	339	15.2
Imperial Brands	13,047	11,348	15.0
Carnival	7,940	10,984	14.2
Royal Dutch Shell	86,670	78,369	14.0
BT	11,098	15,254	13.7
M&G	3,801	1,813	12.6
Wood Group	1,577	2,053	12.6
Taylor Wimpey	4,878	-518	12.5
BP	55,982	54,974	12.4

Source: Sharepad, Shares (values as at 16 March). Note: a minus net debt figure indicates a net cash position.

The highest yielding stock by some distance is cinema operator **Cineworld (CINE)**. Its net debt is several multiples of its current market cap.

Coronavirus will have a big impact on the business, which has taken on significant amounts of debt to fund acquisitions in the US. People should not be even considering the 24.4% yield as a realistic prospect right now. The key question is how it gets borrowings under control and deals with likely breaches to debt covenants.

Even if a company apparently has the cash flow to cover dividend payments, or even cash on the balance sheet to fund them, events could force its hand and lead it to reduce or scrap payments altogether.

Housebuilder **Taylor Wimpey (TW.)** in theory has quite a comfortable balance sheet position but on 12 March its well-financed peer **Berkeley (BKG)** put on hold recently announced plans to double investor returns to £1bn. The decision reflects the current uncertainty around the UK economy.

CASH IN THE BANK

Of the two heavyweights, BP in 2019 had enough cash to cover the dividend comfortably and Royal Dutch didn't, but the latter does has a significant cash pile (note not net cash, it still has very significant borrowings) which it can use to make up the shortfall.

It could also resort to 'scrip dividends', which means paying dividends in new shares, as it did during the period of weak oil prices from 2014 to 2016, if needed.

Of the other FTSE 100 high-yielding stocks, **Imperial Brands (IMB)** generated more cash than it pays out in dividends and like Royal Dutch it also has a reserve of cash which it could dip into if needs be. Though historic and future cash flows could look very different.

Even before the coronavirus struck, **BT (BT.)** wasn't generating enough cash to cover its dividends nor did it have a significant cash position. Therefore to maintain its dividends it will likely need to issue debt which is less than ideal when its borrowings are already bigger than its market value.

Chief executive Philip Jansen recently maintained that despite a poor third quarter the firm is 'on track' to meet its full year targets, but concerns linger over the dividend.

Other companies with yields of 12% or more and which paid dividends which exceeded their free cash flows over the last 12 months according to SharePad are **Carnival (CCL)** and **Petrofac (PFC)**. Both of these companies' payouts are highly likely to be at risk.

By **Ian Conway**
Senior Reporter

2019 dividend payments against free cash flow and cash positions

Name	Cash cost of dividends last 12-month period (£m)	Free cash flow last 12-month period (£m)	Cash last 12-month period (£m)
Royal Dutch Shell	-15,198	14,933	18,054
BP	-6,946	10,139	22,472
M&G	-3,516	-234	6,046
Imperial Brands	-1,844	2,662	2,286
BT	-1,512	1,104	499
Carnival	-1,387	48	518
Evraz	-1,086	1,672	1,423
Taylor Wimpey	-600	544	630
Micro Focus	-439	603	356
Wood (John)	-236	397	1,847
Petrofac	-129	102	1025
Cineworld	-123	454	308
Ferrexpo	-100	203	92

Source: Sharepad, Shares (values as at 16 March).

THE BEST OF MOST WORLDS

The Brunner Investment Trust PLC

AIC DIVIDEND HERO

Established in 1927, The Brunner Investment Trust seeks income as well as capital growth, in the UK and worldwide. Instead of being tied to any one country or sector, we're free to seek potential opportunities wherever they may be: from the UK to the USA, Brussels to Brazil, from online travel to banking, social media to oil and gas. As an investment trust, Brunner enjoys other advantages too, such as being able to draw on revenue reserves to support dividend payments in tough times. Although past performance is no guide to the future, we've paid a rising dividend to our shareholders for 47 consecutive years, earning the Association of Investment Companies' coveted Dividend Hero status. So if you've taken appropriate advice, call or visit us online and see more of the investment world with Brunner.

A ranking, a rating or an award provides no indicator of future performance and is not constant over time. The trust seeks to enhance returns for its shareholders through gearing which can boost the trust's returns when investments perform well, though losses can be magnified when investments lose value. Please note that we can only offer information and are unable to provide investment advice. You should contact your financial adviser before making any investment decision.

0800 389 4696 www.brunner.co.uk

INVESTING INVOLVES RISK. THE VALUE OF AN INVESTMENT AND THE INCOME FROM IT MAY FALL AS WELL AS RISE AND INVESTORS MAY NOT GET BACK THE FULL AMOUNT INVESTED.

This is a marketing communication issued by Allianz Global Investors GmbH, an investment company with limited liability, incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42-44, D-60323 Frankfurt/M, registered with the local court Frankfurt/M under HRB 9340, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (www.bafin.de). Allianz Global Investors GmbH has established a branch in the United Kingdom which is subject to limited regulation by the Financial Conduct Authority (www.fca.org.uk).

Allianz Global Investors

REVEALED:

THE DIRECTORS BUYING SHARES AMID THE MARKET CARNAGE

We look at some of the biggest share transactions

Company directors should know the state of their business better than anyone, so the buying by directors in the wake of the market carnage has been notable.

As stock markets plummet and investors panic, selling whatever they can left, right and centre, a rising number of company executives have started snapping up shares in their own firms, apparently looking to take advantage of the discounted price.

For example, in the week commencing 9 March, when the FTSE 100 recorded its second biggest ever one-day fall, in the top 20 deals by directors in terms of value, 18 of those transactions were buys with only two sells.

In any given week it's more common to see the opposite scenario, with directors usually selling because a portion of their earnings is derived from the awarding of shares, or they need to sell to buy a house or make another large purchase.

Other reasons directors normally sell are to meet tax or divorce bills or due to higher demand for shares from institutional investors.

'ONLY ONE REASON THEY BUY'

Directors do have something of a duty to show restraint in choppy stock markets, and not adding fuel to the fire by dumping their shares when times get tough. But as the old Wall Street adage goes, 'there are many reasons insiders sell, but only one reason they buy'.

Directors buying is considered more significant than directors selling as it is often a signal that they believe are the shares are undervalued.

RECENT DIRECTOR DEALS

BUY

Name	Price	Amount
David Roper, **Melrose Industries**	183p	£990,000
Jozsef Varadi, **Wizz Air**	£32.16	£643,000
Jakob Stausholm, **Rio Tinto**	£33.24	£499,000
Javier Sanchez-Prieto, **IAG**	€4.60	€322,000
Nigel Higgins, **Barclays**	118p	£294,000
Nigel Rudd, **Meggitt**	485p	£485,000
Charles Dunstone, **TalkTalk**	100p	£456,000
John Connolly, **G4S**	95p	£261,000

SELL

Name	Price	Amount
Waqas Samad, **London Stock Exchange**	£79	£1.65m
Nick Brown, **GB Group**	692p	£2.2m

Source: Shares. Examples of large transactions during the market sell-off

In the FTSE 100 of late, directors at **Barclays (BARC)**, **Rio Tinto (RIO)** and **Melrose Industries (MRO)** have all bought shares.

The latter is particularly interesting, with executive vice-chairman David Roper and chief executive Simon Peckham both buying stock, along with chairman Justin Dowley. Roper bought at 183p a share, with Peckham buying at 170p and Dowley at 169p.

On 9 March the company reported double-digit growth in its revenue, profit and dividend, as well as a 72% jump in adjusted free cash flow.

But that hasn't been enough for it to avoid being caught up in the market sell-off, with its share price dropping to around 140p against 245p a month ago.

The buying or selling of shares by a company's chief executive, and/or its finance director, are considered particularly powerful indicators of a company's prospects, as they are the ones most likely to know the outlook and underlying performance of their business.

However, in the current environment it is very difficult for even well-informed executives to take a view on what will happen next.

Barclays chairman Nigel Higgins is another who acted as the markets collapsed, buying 250,000 shares for 118p each. That compares to the 185p price the shares were trading at in January, though amid the wider market weakness the shares have since tumbled through 100p.

AIRLINE EXECUTIVES SWOOP

Airline bosses have also been buying, with directors at British Airways owner **International Consolidated Airlines (IAG)** and budget airline **Wizz Air (WIZZ)** in particular swooping, despite both companies being among the hardest hit by the fallout from the coronavirus outbreak.

Deals by directors at IAG are particularly interesting given British Airways chief executive Alex Cruz told employees on 13 March that, in the current climate, 'airlines with a weak balance sheet, or carrying large debts, are facing a dire future'.

Javier Sanchez-Prieto, chairman and chief executive of IAG's Spanish budget airline Vueling, bought 70,000 of the company's Madrid-listed shares this week at €4.60 each, for a total of €322,000.

Javier Ferrán, a non-executive director at IAG who is also chairman of drinks giant **Diageo (DGE)**, bought 85,900 shares at €4.67 each, worth just over €400,000.

For context, the shares were trading at around the 630p mark at the start of the year, while the Spanish-listed shares traded at €7.70 in January.

The stock has since more than halved in price, with airlines blindsided by sudden draconian travel bans imposed by a growing list of countries.

British Airways in particular has been affected significantly, with its London to New York route – directly affected by reciprocal travel restrictions between the UK and US – known as the 'billion dollar route' because it has previously generated up to $1.15bn in annual profit for the airline.

WHO HAS BEEN SELLING?

Bucking the trend of directors buying shares, **London Stock Exchange (LSE)** director Waqas Samad has been selling.

Samad, chief executive of LSE's index provider subsidiary FTSE Russell, sold 20,800 shares two weeks ago at a price of £79 each, netting him £1.65m in total. Since then, LSE's share price has fallen to around £66.

Another notable seller has been Nick Brown, managing director of identity management company **GB Group (GBG:AIM)**.

Brown sold over 327,000 shares at 692p each on 5 March, netting a total of £2.2m. Since then the shares have tumbled below 500p.

ASSET MANAGEMENT: ADDING VALUE EVERY STEP OF THE WAY

WE KNOW THE UK property market inside out. And we're confident that our understanding of the intricacies of property investment is second to none. So when we manage property assets, we aim to add value every step of the way.

SWEATING THE SMALL STUFF

We don't just live and breathe property – we sweat it too. That's because we know that sustainable returns depend on us getting the little things right. It could be getting the right tenants in a certain section of a retail park – perhaps combining two units to create a larger shop. Or it could be repurposing a building to allow it to benefit from changing market conditions. **Whatever's required, we get it done.**

KEEPING AHEAD OF THE CURVE

We always try to anticipate changes in the economy, the market and the requirements of our tenants. We like to think we know what our tenants need before they do. By anticipating their requirements, we seek to maximise income and capital growth for our investors.

Ultimately, we aim to develop assets that will be attractive to institutional investors in the long term. And we apply our energies to all the assets in our portfolio. Rather than just polishing the 'jewels in the crown', we aim to create a portfolio that has quality all the way through.

UNLOCKING LATENT VALUE

All of that involves hard work and attention to detail. It's a painstaking process, and it's one that is never complete. The requirements of tenants change, as do local and national market conditions. But our team's long experience in property investment and management allows us to keep ahead of these changes and gives us a considerable competitive edge.

That edge allows us to unlock the latent value in our portfolio. Maximising that value ensures greater satisfaction among our tenants and stronger, more sustainable income streams for our investors.

WORKING WITH THE BEST

Our small size makes us much nimbler than big institutional investors. In managing the investment and upkeep of our portfolio properties, we draw on our local knowledge to ensure that we always work with the best people for the job – whether that's a one-man outfit or a sizeable company. Where possible, we cut out the middlemen, ensuring better value for tenants and investors alike.

Our principle of working with the best applies to our own team too. With an average of over 20 years' experience in UK property, each member of our veteran team is energetic, painstaking and tenacious. In running our investment portfolio, we draw on the well-established strengths of our broader Ediston business. Our collective knowledge covers all sectors of the property market, and we work together to make that accumulated expertise count for our clients. ■

ediston

The contents of this article should not be construed as legal, tax, investment or other advice. Each prospective investor should make its own enquiries and consult its professional advisers as to the legal, tax, financial and other relevant matters and risks concerning any investment opportunity.

Past performance is not a reliable indicator of future performance – the value of a stock market investment and any income from it can fall as well as rise and investors may not get back the amount invested.

Whilst information contained in this article is believed to be accurate at the date of publication, it is subject to change and does not purport to provide a complete description of Ediston Property Investment Company Plc (the "Company") or its future prospects or performance. Any forecast, projection or target is indicative only and not guaranteed. In particular, the payment of dividends and the repayment of capital are not guaranteed.

The Company invests in property assets which can be highly illiquid, typically do not grow at an even rate of return and may decline in value, all of which may have a negative impact on the value of the Company.

To the fullest extent permitted by law, The Company, Ediston Investment Services Limited and their respective directors, advisers or representatives shall not have any responsibility or liability whatsoever for any loss (whether direct or indirect) arising from the use of this documents or its contents.

Issued and approved by Ediston Investment Services Limited which is authorised and regulated by the Financial Conduct Authority (FRN:706655)

THE BEST ESG INVESTMENTS

Finding stocks and funds that will help the world

By **Daniel Coatsworth, Martin Gamble, Yoosof Farah** and **Steven Frazer**

The ESG (environmental, social and governance) theme is heavily in demand with investors looking for ways to profit from companies trying to make the world a better place.

Unfortunately finding suitable investments isn't as straightforward as you might think. Firstly, a lot of companies say they are embracing ESG principles but they might only be doing the bare minimum such as recycling their rubbish and donating some money to charity. Secondly, many investment funds may talk up their ESG credentials yet they may be heavily skewed to the 'G' part, namely focusing on companies with good governance.

In reality, a lot of investors just want to invest in the ESG theme for the 'E' and the 'S' part. These factors are the most relevant to environmental issues dominating the headlines such as climate change and having a fairer society.

This article will talk through the process of trying to find investments more relevant to 'E' and 'S' than 'G' as arguably all companies and funds should be striving to have excellent governance. If someone or something has poor business ethics, isn't transparent and doesn't really care about investors, then you shouldn't put money into it full stop.

WHAT'S CONSIDERED WITH ESG?

Examples include:

Environmental

- Climate change
- Waste management
- Energy efficiency
- Water scarcity

Governance

- Board structure
- Financial reporting
- Business ethics
- Executive remuneration

Social

- Human rights
- Health and safety
- Consumer privacy
- Gender equality

WHY IS ESG IN DEMAND?

Climate risks, resource scarcity, clean energy and the protection of the world's animals and wildlife are striking a chord with a growing number of people around the globe. Investors want to put money into companies that aren't contributing to the problems and instead ones providing solutions, viewing it from a moral perspective as well as hoping to generate positive returns over time.

Confusing matters in the search for suitable investments is the number of names used interchangeably which represent similar ambitions to ESG. Sustainable investing, ethical investing, impact investing, green investing and socially responsible investing are among the key phrases used, although responsible investing perhaps best captures the spirit.

You can quickly become overwhelmed with the number of phrases. This suggests you need to define your ambitions and purpose with ESG investing from the start as that will help you narrow down the search for suitable investments.

ESG-RELATED FUNDS

We've built a list of keywords that are used across a range of investment funds and trusts in the product name. The definitions can be summarised as follows:

- **Ethical:** Uses moral as well as financial criteria when selecting assets for a portfolio. Typically looks to avoid stocks on the basis of negative criteria, such as screening out companies that produce alcohol or weapons.

- **Sustainable:** Selects companies that have a positive impact on the world, such as developing green technology or undertaking social initiatives in developing countries. Investments can include seemingly 'bad' businesses; for example, an oil and gas company could qualify if it is involved in renewable energy, even though it also produces fossil fuels.

- **Impact:** Actively selects companies whose positive impact on the world can be measured. This might be generating a specific amount of recycling or saving a certain amount of water.

- **Socially Responsible Investing:** This is a variation on some of the aforementioned terms. It involves investing in companies that have positive social impacts. For example, this means avoiding ones that produce or sell things that are addictive like gambling and tobacco and proactively seeking companies that are engaged in social justice.

Other terms that might feature in ESG-themed investment fund product names include:

- **Responsible**
- **Environmental**
- **Social**
- **Climate**
- **Water**
- **Green**
- **Renewable**

We analysed funds and investment trusts containing these names in their product titles and found 'sustainable' to be the most widely-used phrase, as featured by 63 funds. 'Responsible' and 'ethical' are the next most popular phrases, while 'climate', 'environmental' and 'green' are barely used. The accompanying table gives you some examples of funds per category.

EXAMPLES OF FUNDS WITH DIFFERENT ESG TITLES IN THEIR NAME

Climate
Nordea Global Climate and Environment
Thesis Climate Assets
Impact
ASI UK Impact Employment Opportunities Equity
M&G Positive Impact
Ethical
Liontrust UK Ethical
Premier Ethical
Environmental
Pictet Global Environmental Opportunities
Impax Environmental Markets
Sustainable
Royal London Sustainable World Trust
Janus Henderson Global Sustainable Equity

Source: Shares, FE fundinfo

The fact that 'sustainable' features so widely is important for investors looking for ESG investments. As we mentioned earlier, this category can include companies which some people would consider to be harming the environment, such as oil producers. Therefore make sure you look closely at the top holdings for any relevant fund to check you're happy with the constituents.

Click here if you would like to read about ESG-related exchange-traded funds (ETFs).

EXAMPLES OF FUNDS WITH 'SUSTAINABLE' IN THE TITLE

- **Liontrust Sustainable Future UK Growth (3002876):** The asset manager will only pick companies for this fund that meet its rules for environmental and social responsibility. Holdings include pharmaceutical giant **GlaxoSmithKline (GSK)**, housebuilder **Crest Nicholson (CRST)** and catering provider **Compass (CPG)**.

- **Guinness Sustainable Energy (B7LWDH1):** It invests in stocks in the alternative energy sector, principally those providing power equipment, generating power, and involved in the electric vehicle industry. Holdings include renewable energy provider Ameresco, wind turbine manufacturer Vestas Wind Systems and electrical equipment specialist Schneider Electric.

ESG-RELATED STOCKS

As for those seeking individual stocks, seemingly obvious investment ideas can also mask underlying issues that don't fit with an ESG investment theme, so you need to judge each company one-by-one.

For example, water supply should be very sustainable and environmentally-friendly yet the industry is often dragged over the coals by regulators because of network leaks.

A cardboard packaging supplier may look significantly more ESG-relevant than a plastics one, yet manufacturing remains one of the biggest users of energy, which at the moment means burning lots of fossil fuels.

Automating tasks sounds great, but not if at the expense of thousands of jobs.

You then have the issue of companies talking up their ESG credentials which might sound attractive, but ultimately that might not be the driver of earnings. For example, supermarket **Sainsbury's (SBRY)** has made several green pledges like cutting plastic and reducing emissions to zero by 2040, but at the end of the day it is just selling food and drink.

In contrast, a company like **Water Intelligence (WATR:AIM)** which finds and fixes water leaks would be much more relevant to someone who only wants to invest in businesses with environmental solutions.

Index providers such as MSCI have ESG ratings on stocks which investors often use as inspiration. Again, this might only shine the light on businesses doing the right thing but not necessarily having products or services to address climate change, for example.

The top five names in the MSCI World ESG Leaders Index are Microsoft, Google owner Alphabet, Johnson & Johnson, Visa and Procter & Gamble. While most of them invest in sustainability and important research and innovation, products or services which protect the environment aren't the core part of their business.

So it goes back to the point that you need to establish exactly what you want to achieve from putting money into the ESG space.

CAN YOU SEARCH FOR FUNDS BY THEIR ESG CREDENTIALS?

Fund rating company Morningstar has leveraged the data that it collects from fund management groups in order to help investors assess ESG risk at the portfolio level.

The score is called the sustainability rating and most of the information is available for free on Morningstar's website when you look at individual funds. You can also search for funds by high or low sustainability rating.

The rating is based upon individual assessments of the companies in a portfolio and weighted by how much money the fund manager puts into each stock, then aggregated to create a portfolio score.

At least two thirds of the companies within a portfolio must have an ESG risk rating in order to receive a Morningstar sustainability rating. Because some companies within a portfolio might not have an individual risk rating, an adjustment is made which effectively rescales each portfolio to 100%, so that they can be compared.

HOW DOES THE SCORING SYSTEM WORK?

The idea behind Morningstar's scoring system is to identify the ESG risks that affect the potential economic value of a company and which in turn impacts share price performance.

Because each firm will have explicit mitigation policies in place to address ESG risk, it is the unmanaged risk exposure that the rating is designed to measure.

The scoring system ranges from 0 to 100 with a lower score indicating the lowest ESG risk. The universe is split into five bands; zero to 9.99 represents negligible risk, 10 to 19.99 is low risk, 20 to 29.99 is medium, 30 to 39.99 is high risk and any score above 40 represents severe risk.

Portfolios change through time when fund managers add or remove holdings and when share prices change. So, in order to make the rating more dynamic, the sustainability rating is time weighted, giving historical scores lower weights compared with more recent scores.

This process adds consistency and more actively reflects each portfolio manager's current decisions, which makes sense.

Different industries and sectors have specific factors that are more applicable to their activities and so Morningstar's system is designed to allow an apples-for-apples comparison across funds within the same industry.

The rating is normalised so that a third of funds receive the top rating of four or five globes (above average within their peer group), a third receive three globes (average), and a third are given one or two globes (below average).

An example will illustrate how the system works. **LF Ruffer Gold (B8510Q9)** has a sustainability score of 43.8, meaning it has severe ESG risk (>40). However the fund receives the highest environmental sustainability rating (High) out of similar funds.

Regardless of how well the fund ranks within its Morningstar Global category, the maximum sustainability rating it can receive is three globes (average), because of its poor ESG rating.

Conversely, **Fidelity Global Property (B7K2NZ0)** has a sustainability score of 17.5, which is negligible ESG risk, but a below-average environmental risk score.

Morningstar will show you the ESG pillars score for each fund.

HIGH SCORING FUNDS

With the help of Morningstar's database we have whittled down the list to find funds which all feature low to medium ESG risk as well as boasting five globes, Morningstar's highest sustainability rating, which means they represent the top 10% of funds against their global peers. **Here are four examples:**

Jupiter Ecology (B4KLC26)

The £500m fund looks to provide capital growth and income over the long term by investing at least 70% of the fund in companies whose core products and services address global sustainability challenges.

Two thirds of the fund is invested in the medium and small cap part of the market with only a third in large and mega-cap stocks. Denmark represents over 6% of the fund's assets with 3.2% in Vestas Wind Systems and 3.1% in Orsted, an alternative power producer.

Despite very strong periods in 2013, 2017 and 2019, overall the fund has yet to show it is capable of consistent outperformance which is a risk to consider.

Stewart Investors Global Emerging Markets Sustainability (B64TS99)

The fund aims to achieve long term capital growth by investing in a diversified portfolio of companies operating in emerging economies, positioned to benefit from and contribute to sustainable development of countries where they operate.

Over the last five years the fund has delivered average annual returns of 4.9% comfortably beating the benchmark's 0.6% return.

The fund is predominately positioned in large and mega-cap names, which represent 72% of assets.

Top 10 holdings make up 41% of assets; among the largest weights include **Unilever (ULVR)** at 7%, India's Tata Consultancy Services at 6% and Tech Mahindra at 4.6%.

Pictet Global Environmental Opportunities (B4YWLO6)

This €1.7bn fund aims to achieve capital growth by investing across the globe in companies active in the environmental chain, such as agriculture, clean energy and water.

Large cap exposure is 56% of assets with mid-caps representing 40% and the remainder in small cap.

US stocks dominate the portfolio and represent 56.5% with the Eurozone at 18% and the UK at 7%. The portfolio has 52 holdings.

Top holdings include US design software and engineering company Autodesk and French waste and energy services company Veolia. Read this article for a full analysis of the fund.

Royal London Sustainable Leaders (B8HTH59)

The £972m fund aims to achieve long-term capital growth by investing at least 80% in UK shares that are deemed to make a positive contribution to society. Lead fund manager Mike Fox is head of Sustainable Investments at Royal London Asset Management.

The fund has achieved 8.7% annualised returns over the past five years versus 4.1% from the benchmark.

In addition to UK shares, the fund has an 11% exposure to the US stock market and 6% to Europe. The trust has a large weighting in the healthcare sector including 5% in **AstraZeneca (AZN)**, 4% in **GlaxoSmithKline (GSK)** and 4% in **Smith & Nephew (SN.)**.

Other top 10 holdings include utility **SSE (4.8%)** and pest control business **Rentokil (4.3%)**.

How Pictet's ESG fund searches for experts saving the environment

The Global Environmental Opportunities fund has a very interesting way of filtering the investment universe

There are a large number of investment funds ready to cater for investors' growing appetite for all things ESG. To get noticed funds have to distinguish themselves from the crowd by having something very clever about how they pick assets and manage portfolios.

Among the larger funds in the market is **Pictet Global Environmental Opportunities (B4YWL06)** with €1.7bn of assets under management. Co-fund manager Luciano Diana says a scientific approach, considerable in-house expertise and an advisory board differentiate the fund from others.

Pictet is a big name in the world of thematic investing with a range of funds that aim to capitalise on megatrends, encompassing how changes in technology, the environment and society will shape the world.

In particular, growing awareness about the need to tackle climate change by individuals, companies and governments has helped to fuel a thriving industry for environmental products and services.

Pictet Global Environmental Opportunities invests in environmental solution providers such as waste management companies, recycled packaging experts and pollution control specialists.

HOW IS THE FUND DIFFERENT?

While you might think it is fairly straightforward to find stocks active in these areas, Pictet argues its research goes much deeper.

Key to its screening process is the use of the planetary boundaries framework which identifies nine areas critical to the planet. It focuses on these dimensions:

- climate change
- biodiversity loss and extinction
- freshwater use
- ocean acidification
- ozone depletion
- land system change
- aerosol loading
- chemical pollution
- nitrogen and phosphorus flows to the biosphere and ocean

'Each one has a threshold and if exceeded we risk changing the environment with no way back once you hit the tipping point,' says Diana.

Companies will only be considered for the portfolio if they operate in a safe place within the planetary boundaries.

You won't see Pictet back any companies involved in over-consumption of natural resources which means no oil, gas, mining or heavy industry in the portfolio.

It looks for companies providing solutions and assesses their propositions including any technology. 'For example, industrial agriculture often over-uses agricultural nutrients which end up in rivers. This results in algae bloom and ocean dead zones which hurt marine life. We look for solutions that are alternatives to agri-nutrients,' says Diana.

INVESTABLE UNIVERSE

The Pictet fund's rigorous process means only 400 companies qualify for investment consideration; of these, only about 50 are held in the portfolio.

Diana says environmental

solution providers fall into seven categories:

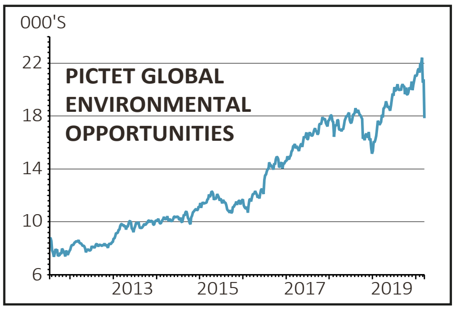
- renewable energy
- energy efficiency
- sustainable agriculture and forestry
- water supply and technologies
- waste management and recycling
- pollution control
- dematerialised economy

The fund's biggest holdings are Autodesk and Ansys which both specialise in 3D design and engineering. You might think they are odd stocks for an environmental fund yet it is precisely the type of company that ticks all the boxes for Pictet.

The companies fall under the category of a dematerialised economy. By creating simulations of buildings they are helping construction and engineering firms to have less need for physical prototypes, thus reducing raw material consumption.

Companies with tools for environmental testing, such as air, water, soil and food quality measurement, also feature prominently in the fund's portfolio. Relevant holdings include chemical analysis expert Agilent, instrumentation provider Thermo Fisher Scientific and a pair of testing groups, SGS and **Intertek (ITRK)**.

For the pollution control theme it holds Tetra Tech because of strengths in its US environmental and engineering business. Orsted is held to play the renewable energy theme, with Diana noting a competitive advantage in offshore wind. And for sustainable agriculture the fund invests in Symrise which has a focus on sustainability and natural ingredients for the food market.



PICTET GLOBAL ENVIRONMENTAL OPPORTUNITIES

Cumulative performance			
	1 YEAR	3 YEARS	5 YEARS
Fund	7.0%	18.7%	62.6%
Benchmark	-8.6%	10.7%	52.6%
Fund quartile	1	1	1

Source: FE Fundinfo, 12 March 2020. Benchmark: MSCI World Index

MULTIPLE STOCKS FOR SAME THEME

The fact it owns multiple companies in the same space is interesting given that it has a fairly concentrated portfolio. One might assume it would only hold its strongest idea.

In addition to the pairs of Autodesk/Ansys and SGS/Intertek, in the packaging arena it holds both **Smurfit Kappa (SKG)** and **Mondi (MNDI)**, and in the waste management space it invests in three stocks with similarities: Republic Services, Waste Connections and Waste Management Inc.

'If we have two or three stocks in the same area in the portfolio, so be it,' says Diana. 'Their presence is about us having conviction. We have 3% each in three waste management firms, for example, but our process wouldn't lead us to have 9% of the portfolio in just one of those companies.'

PERFORMANCE TRACK RECORD

The fund launched in July 2011 and it took a year before the performance really started to pick up. Since inception it has achieved a total return of 117.6% (as of 11 March 2020).

On a one, three and five year basis the fund has outperformed its MSCI World index benchmark by a decent amount (see table) and has been in the top quartile for performance. In the recent market sell-off it has fallen by less than the benchmark (-6.4% versus -8.6% respectively over three months).

We like this fund's investment approach and believe it provides a good way of playing the ESG theme. Pictet is very clear about what it wants in the portfolio and you're not simply getting a basket of stocks with random environmental connections which is sadly the case with many other ESG funds. We rate it as one of the top ESG investments to own.

DISCLAIMER
The author has a personal investment in this fund.

By **Daniel Coatsworth**
Editor

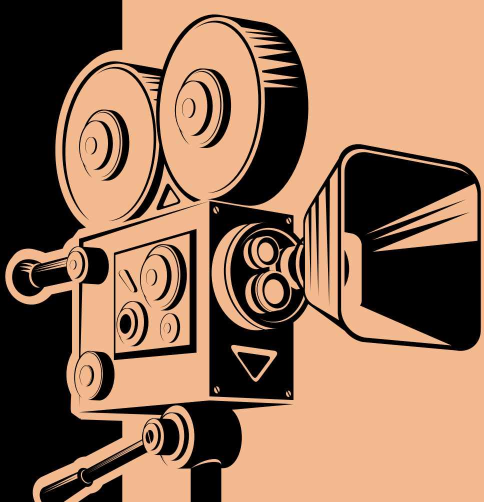
WATCH OUR LATEST VIDEOS

Neil Campbell, CEO
Inspiration Healthcare Group (IHC)

Inspiration Healthcare Group is a global supplier of medical technology for critical care, operating theatre and home healthcare applications. Their mission is to provide high quality innovative products to patients and caregivers around the world that help to improve patient outcomes and efficiencies of healthcare organisations with patient focused customer service and technical support.

Giulio Cerroni, CEO & Grant Nash, CFO
IXICO (IXI)

IXICO is dedicated to delivering insights in neuroscience. Their mission is to transform the advancement of investigational therapies for neurological diseases through the application of medical image analysis and digital health data analytics, bringing safe and effective treatment to patients sooner.



CLICK TO PLAY EACH VIDEO

SHARES SPOTLIGHT

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

www.sharesmagazine.co.uk/videos

Big moment for Disney as streaming service debuts in UK and Europe during lockdown

The media giant could see big uptake of Disney+ at a time when it faces theme park losses

On 24 March the Disney+ streaming service launches in the UK and Europe. This event comes at an interesting time for parent company Walt Disney as an increasing number of people confined to their homes amid coronavirus lockdown might be looking for the distraction provided by a new content platform.

In particular, it could be a saving grace for parents seeking to entertain their children while also trying to work from home.

Disney needs all the positive news it can get given how its theme parks are being negatively impacted by the virus.

CAN DISNEY CRASH THE STREAMING PARTY?

Despite uncertainty over the company's near-term earnings, the 34% year-to-date decline in the share price could represent a good opportunity to invest in a fascinating business.

Disney+ launched in the US last November and has already secured nearly 30m subscribers, ahead of analysts' initial expectations.

While Disney was behind the curve in launching a streaming service, the quality of its existing content and franchises could put it in a strong position to unseat more established rivals like Netflix.

Also key to the investment case is Disney's unrivalled intellectual property which generates significant opportunities for revenue generation, such as merchandise linked to films and show.

> Disney+ launched in the US last November and has already secured nearly 30m subscribers

NEW BOSS

The company is at an interesting inflexion point with chief executive Bob Iger moving to the executive chairman's seat after more than a decade in charge and 27-year Disney veteran and former parks and products boss Bob Chapek stepping up to the helm.

Two of its major film franchises are also at a crossroads following the end of the current cycle of Star Wars and Marvel films, with Disney+ likely to see greater exploitation of these universes on the small screen.

Notwithstanding the current disruption caused by the coronavirus outbreak, the theme parks division is a big driver of profit and cash flow for the company and also deepens the resonance of its intellectual property with consumers.

As media commentator Matthew Ball described it in a recent essay: ‘There is nothing that can compare to the impact of a child being hugged by her heroes. The ability to enjoy your favourite intellectual property as “you” is unique and lasts a lifetime.’

This is important as the company transitions from wholesale approach, where its content was delivered to consumers through other platforms, to a more direct relationship with viewers.

UNRIVALLED POSITION

For many of us, watching our first Disney film was a coming of age experience. With the company’s capture of the Star Wars and Marvel franchises over the last decade, plus the 2019 takeover of 21st Century Fox, it has carved out an unrivalled position in the global media sector.

One offshoot of the M&A drive worth noting is that net debt has more than doubled from the $20.9bn posted in the September 2018 financial year to $47bn at the last count.

DISNEY IN NUMBERS

Share price: $91.81

Market cap: $165bn

Annual revenue: $69.6bn*

Net debt: $47bn

*12 months to 28 Sep 2019

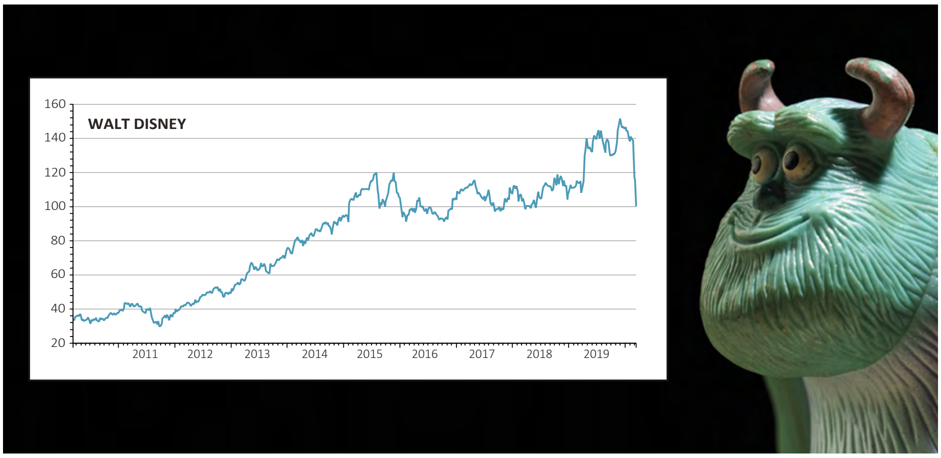
VARIETY OF EARNINGS

Headquartered in Burbank, California, Disney’s activities span films, television, publishing, merchandise and theme parks and it generated revenue of nearly $70bn in the 12 months to 28 September 2019.

It is split into four different divisions: media networks; the parks, experience and products arm; studio entertainment; and direct to consumer / international.

While the potential of the parks side of the business may be significant, the short term looks set to be a rollercoaster ride thanks to the challenges posed by the coronavirus pandemic.

Alongside first quarter results (4 Feb) Disney flagged a $280m second quarter hit to operating income from the closure of its parks in Shanghai and Hong Kong. Tokyo Disney Resort has also closed to the public. Since then it has temporarily closed its parks in California, Florida and Paris. The flying ban between the UK/Europe and the US will have a definite negative impact on earnings, particularly if the ban extends to the Easter holiday period.



RIVALS AT THE BACK OF THE QUEUE ON THEME PARKS

Taking a long-term view and hoping that coronavirus will be a short-term disruption, Disney’s parks dominate a market with significant barriers to entry.

As well as having strong franchises which can be used in the creation of rides, rivals attempting to replicate its success face issues around securing large enough sites as well as the huge upfront costs of building and maintaining these parks.

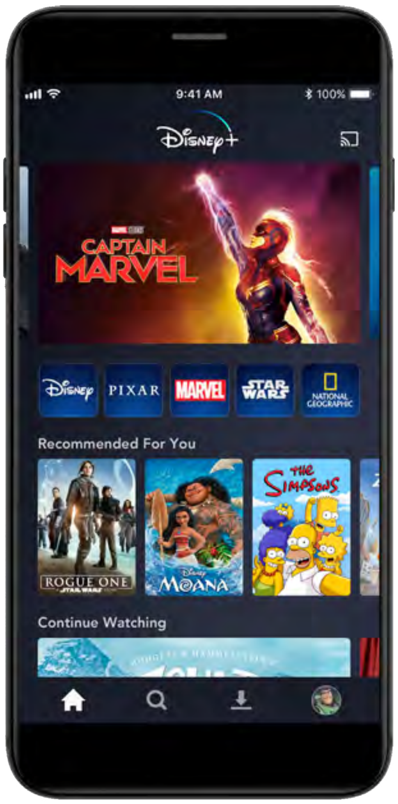
In the three month period to 28 December the parks, experiences and products division accounted for 35% of revenue but 58.4% of operating income.

GROWTH DRIVERS

On future plans for the division UBS analyst John Hodulik notes: 'Chapek suggested the segment still has a ways to go in terms of pricing power and described how yield management continues to drive value without hurting the customer experience.

'His longer-term goal is to extend the Disney franchise in the parts of the world where it doesn't have a presence.'

The other key growth priority is streaming. Disney+, which is being offered in a bundle alongside Disney-owned sports platform ESPN+ and Hulu (acquired as part of the Fox deal) in the US, has a target of hitting 60m to 90m global subscribers by the end of the company's September 2024 financial year.



> **The other key growth priority is streaming. Disney+ has a target of hitting 60m to 90m global subscribers by the end of the company's September 2024 financial year**

For context this compares with 167m subscribers worldwide for Netflix and could end up being quite a conservative target.

EARNINGS SETBACK

Because Disney+ is being launched in a competitive market where incumbents like Amazon's Prime Video and Netflix have built strong positions, and others such as Apple TV+ and HBO have also launched of late, Disney is investing heavily in original content alongside its existing back catalogue.

As a result Disney+ is not expected to turn a profit until its September 2024 financial year. ESPN is also affected by inflation in the price of rights to live sport and this could pile further pressure on margins.

There are also market fears that coronavirus disruption to the sporting calendar could see ESPN temporarily short of new content which could trigger subscription cancellations.

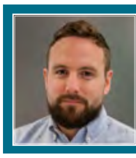
Disney has an impressive roster of films set to be released in the future including a live action version of *Mulan* and the next title in the Marvel series, *Black Widow*. However, cinema attendance could be affected by coronavirus and the film industry is already pushing back big-name releases until later in the year or 2021.

POINTS TO CONSIDER

The main risks to our positive view on the stock is that the coronavirus outbreak has a more lasting impact on appetite for travel, thereby depressing visitor numbers at its parks in the longer term.

You must also consider the risk that Disney struggles to secure expected subscriber numbers for Disney+ (as well as Hulu and ESPN) and faces escalating programming costs.

On balance though we think these risks are outweighed by the ability to invest in such a high quality business at significantly lower share price than you could at the start of 2020. If you're happy with the risks and understand the shares could be weak near-term, buy at $91.81. Otherwise, wait on the sidelines and reappraise Disney's status once the coronavirus pandemic is over.



By **Tom Sieber**
Deputy Editor

AJBell Media

SHARPEN YOUR INVESTING SKILLS WITH SHARES

A SUBSCRIPTION TO SHARES HELPS YOU TO:

- Learn how the markets work
- Discover our best investment ideas
- Monitor stocks with our customisable watchlists
- Enjoy our guides to sectors and themes
- Get the inside track on company strategies
- Find out how fund managers make money

Digital magazine

Online toolkit

Investment ideas

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

How long does it take to bounce back from a bear market?

We look back at history to see how equities behaved following periods of pronounced weakness

This column recently looked at [the history of bear markets in the field of UK equities](). That analysis has proved to be rather timelier than anticipated, since the FTSE All-Share has just entered the eleventh such downturn in its 58-year history and the FTSE 100 its fifth bear phase since launch in 1984.

To recap, the average bear market in the FTSE All-Share has lasted 385 days and served up a 37% drop in the index, although that covers a wide range. The shortest bear market was just 42 days (1981) and the longest 1,167 (2000-03), while the smallest loss was 21.5% (also 1981) and the worst drop was 72.6% (1972-75).

With the All-Share already down by 31% in just 55 days, investors could be forgiven for at least pondering whether the worst may be over. That may depend upon the length and geographic breadth of the coronavirus outbreak, the scale and sort of fiscal and monetary policy response, and the duration and depth of any recession that ensues owing to the disruption to both global supply chains and global demand.

It should nevertheless be instructive to look at how long it has typically taken the All-Share to recover the ground lost during a bear market, to see if this gives investors any guide as to when they might like to start averaging their way back in, or at least starting to do their research on possible recovery picks.

RECOVERY PHASE

The good news is that on all 10 prior occasions, the FTSE All-Share has completely recaptured the

ground lost during the previous bear market.

You might think this does not sound like a big deal, but ask any investor with experience of, and exposure to, the Japanese stock market and you might think otherwise. The Nikkei 225 peaked at 38,916 on 31 December 1989 and 31 years later it stands at 17,431.

The bad news is that on eight of 10 occasions, it took the index longer to make up the ground than it did to lose it. This is partly down to the nature of bear markets, which by the nature have tended to be relatively nasty, brutish and short (rather like recessions, compared to economic upturns). It is also just mathematics. If an index halves, it has to double to get back to where it started.

The average time it has taken the All-Share to recover a bear market loss is 648 days, compared to the 385-day average market downturn.

Again, there is a wide range. It took the benchmark just 89 days to bounce back from its

RUSS MOULD
AJ Bell Investment Director

The average recovery period from a bear market for the FTSE All-Share is 648 days

Prior bull gain	Bear market	Duration (days)	Loss	Ended	Start point regained	Days taken to regain
81.0%	1969-1970	481	(37.0%)	27-May-70	20-Jul-71	419
98.2%	1972-75	874	(72.6%)	06-Jan-75	14-Sep-77	982
148.4%	1975	63	(20.8%)	08-Aug-75	05-Nov-75	89
41.0%	1976	170	(32.6%)	20-Oct-76	03-Feb-77	106
144.8%	1979	192	(22.5%)	15-Nov-79	16-Jul-80	244
54.1%	1981	42	(21.5%)	28-Sep-81	10-May-82	224
365.8%	1987	117	(36.6%)	10-Nov-87	29-Jul-91	1,357
265.4%	1998	122	(24.1%)	08-Oct-98	24-Feb-99	139
48.9%	2000-03	1,167	(50.9%)	12-Mar-03	03-Jan-07	1,393
118.4%	2007-09	617	(48.6%)	03-Mar-09	10-May-13	1,529
Average		**385**	**(36.7%)**			**648**

Source: Refinitiv data

The 2000-03 market decline featured six bear-trap rallies

Start	Finish	Duration (days)	Start	Finish	Gain (%)	Gain (points)
15-Feb-00	24-Mar-00	38	2,873	3,195	11.2%	322
17-Apr-00	04-Sep-00	140	2,853	3,266	14.5%	413
22-Mar-01	22-May-01	61	2,573	2,891	12.4%	318
21-Sep-01	19-Nov-01	59	2,128	2,579	21.2%	451
24-Jul-02	27-Aug-02	34	1,846	2,147	16.3%	301
24-Sep-02	21-Nov-02	58	1,783	2,008	12.6%	225
Average		**65**			**14.7%**	

Source: Refinitiv data

63-day, 21% pummelling in 1975. But it needed 1,529 days to pick itself up after the crunching 2007-09 downturn which featured the global financial crisis and a 49% peak-to-trough decline.

RALLY AROUND

It does appear that the longer the preceding bull market and the bigger the gain, the longer the recovery period that is needed. The hangover that followed the 1998-99 and 2003-07 parties suggests as such, although the bear market of 1987 was very, very short and that was sandwiched in between the huge advances of 1981-87 and 1987-98.

All may not be lost this time around, despite

RUSS MOULD
AJ Bell Investment Director

the length and extent of the preceding gain, although there is one other phenomenon of which investors need to be aware, namely the bear market rally.

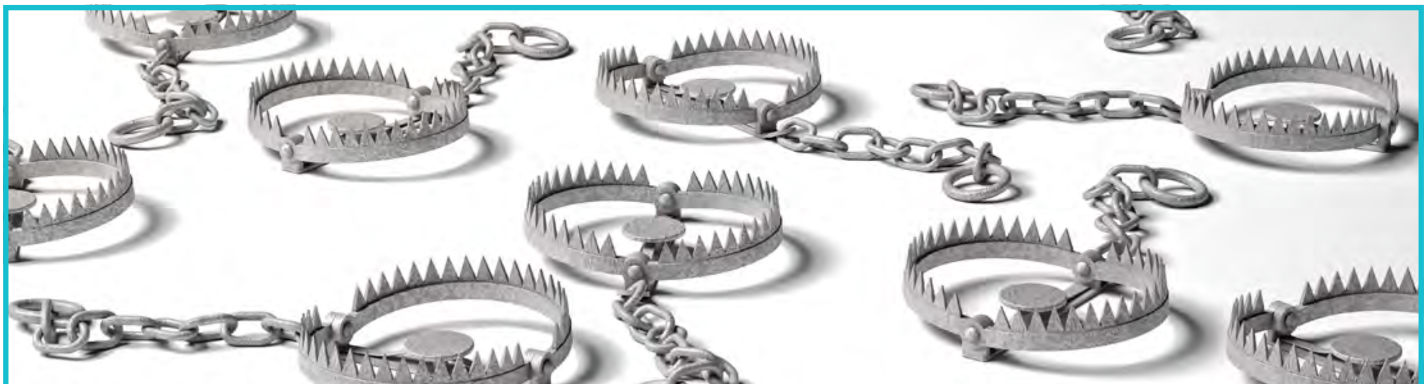
Bear markets are actually littered with sharp advances which cruelly turn out to be nothing more than bear traps for the unwary, who were tempted into a 'buy-on-the-dip' strategy, only to quickly find themselves in trouble. The 2003-07 and 2007-09 market drops were classic examples.

The 2000-03 bear market, which followed the collapse of the technology, telecoms and media bubble, witnessed six major rallies in the All-Share. Those advances generated a combined gain of 2,030 points between them, even as the index moved by 1,649 points from top to bottom, showing how much additional pain would have been suffered by anyone who was tempted to pile into the market by these rallies.

The 2007-09 bear run was no less vicious. Seven rallies just led bulls and dip-buyers to the slaughter as even their 2,420-point cumulative gains could not stop a three-year 1,690-point, peak-to-trough decline.

This is particularly relevant today, after last Friday's (13 March) 9.8% gain in America's S&P 500. Bulls will try to fight back. But before that spectacular surge, nine of the S&P's best single-day percentage gains since 1964 have come during bear markets.

The exception was 10 March 2009 which was the very first day of the 11-year bull run that has just ended. Fingers crossed we get a repeat this time, though history might just be against it.



The 2007-09 market decline featured seven bear-trap rallies

Start	Finish	Duration (days)	Start	Finish	Gain (%)	Gain (points)
16-Aug-07	12-Oct-07	57	3,032	3,455	14.0%	423
21-Nov-07	10-Dec-07	19	3,104	3,332	7.3%	228
21-Jan-08	26-Feb-08	36	2,845	3,114	9.5%	269
20-Mar-08	18-May-08	59	2,778	3,243	16.7%	465
16-Jul-08	02-Sep-08	48	2,615	2,869	9.7%	254
16-Oct-08	04-Nov-08	19	1,965	2,318	18.0%	353
21-Nov-08	06-Jan-09	46	1,891	2,319	22.6%	428
Average		**41**			**14.0%**	

Source: Refinitiv data

SIPPs | ISAs | Funds | Shares

AJBell
Youinvest

The freedom fighter

If your inner investor demands financial freedom, take control of your pension pot with our SIPP.

Discover your inner investor
youinvest.co.uk

Recommended Provider
Which?
Investment Platforms June 2019

The value of your investments can go down as well as up and you may get back less than you originally invested.

Will I be caught by the annual allowance tax taper?

AJ Bell pensions expert Tom Selby explains the rules and how they are soon changing

I'm trying to figure out if I am going to be caught by the annual allowance tax taper both this tax year and next. I'm going to have taxable earnings of £150,000 this year, and have used up the full £40,000 annual allowance (50% my contributions, 50% from my employer). My earnings and pension contributions should be the same next year.
Iain

Tom Selby,
AJ Bell
Senior Analyst says:

For most people the annual allowance (inclusive of tax relief) on all pension contributions is £40,000, with an additional cap of 100% of UK earnings on the contributions you pay personally.

There are two major exceptions – where someone has flexibly accessed taxable income from their pension, triggering the £4,000 'money purchase annual allowance', or where they have breached both annual allowance 'taper' income thresholds.

At the moment, the pension tax taper kicks in when someone's 'threshold' income is above £110,000 and 'adjusted' income is above £150,000.

Threshold income is broadly taxable income (so earnings plus investment income) minus personal pension contributions. Adjusted income is taxable income (again earnings and investment income) plus employer contributions.

Threshold income also needs to include any salary sacrifice or flexible earnings arrangements set up after 8 July 2015, while lump sum death benefits are deducted to reach both income measures.

Where both limits are breached, the annual allowance reduces by £1 for every £2 of adjusted income earned above £150,000, to a minimum of £10,000 for those with adjusted income of £210,000 or more.

So in your case, assuming you have no investment income, recent salary sacrifice or lump sum death benefits, your threshold income this year will be £130,000 (£150,000 - £20,000 personal pension contribution) and your adjusted income will be £170,000 (£150,000 + £20,000 employer pension contribution).

In the 2019/20 tax year you will therefore trigger the taper, reducing your annual allowance from £40,000 to £30,000.

As your total pension contribution in the tax year is £40,000, unless you have unused allowances from the last three tax years that you can 'carry forward', you'll be subject to an annual allowance tax charge on £10,000. As the contribution would have benefitted from 40% tax relief, you will face a charge of £4,000 (£10,000 x 40%).

Chancellor Rishi Sunak has announced a big increase in both the threshold and adjusted income measures used with the annual allowance taper. From 6 April this year, threshold income will rise to £200,000 and adjusted income will increase to £240,000.

The taper will be applied in the same way as previously – so your annual allowance will reduce by £1 for every £2 of adjusted income earned above £240,000 – but the annual allowance floor has been lowered to £4,000 for those with adjusted income of £312,000 or more.

Assuming your earnings and pension contributions remain the same in 2020/21, you will benefit from the full £40,000 annual allowance and therefore face no annual allowance charge.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

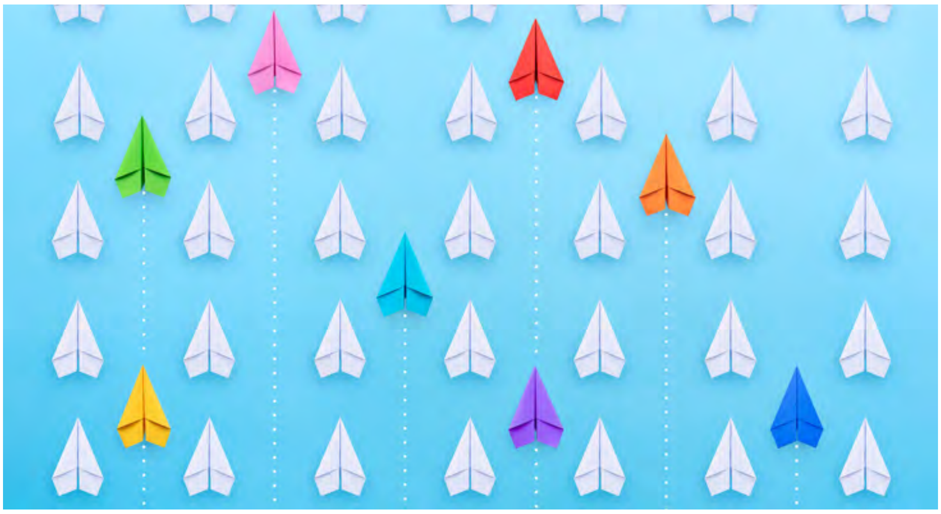
Please note, we only provide guidance and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

Eight changes to your money happening next month

Everything you need to know about changes to ISA allowances, capital gains tax, loans and more

The new tax year is looming, and with that always comes a raft of changes to tax rates, the limits for tax breaks and how much of your pay goes into your back pocket each month.

The changes happen on 6 April which is the start of the new tax year. Some of them have only just been announced in last week's Budget and could be a welcome surprise to earners and investors.



1 JUNIOR ISA ALLOWANCE JUMPS

Parents will see a massive jump in the amount they can put away in a Junior ISA, with the annual limit more than doubling from the current £4,368 to £9,000.

It's the biggest jump in the allowance since the Junior ISA launched in 2011. The increase in allowance means a parent starting saving next month for a newborn child could build a tax-free pot of more than £240,000 by the time their child reaches 18, assuming they put the maximum £9,000 in each year and the investments grow by 4% every year after charges.

2 CAPITAL GAINS TAX ALLOWANCE INCREASES

The amount investors can make each year in capital gains before they pay tax has increased from the current £12,000 to £12,300 from next month, broadly in line with the CPI measure of inflation.

The move will save higher and additional-rate taxpayers with gains above the limit £60 a year and basic rate taxpayers £30 a year, on non-property assets. It will represent a bigger saving for property assets that attract a higher rate of capital gains tax.

3 LESS NATIONAL INSURANCE TO BE PAID

One of the big changes from the Budget was giving most earners a handout by raising the threshold at which you pay National Insurance from the current £8,632 to £9,500.

This change means workers will see an almost immediate benefit with around 31m people set to profit – based on Government estimates. Estimates of how much you'll save vary; the Institute for Fiscal Studies says it's up to £85 a year while the Government says £104 a year.

4 MORE GENEROUS INHERITANCE TAX BREAKS

From 6 April everyone will be able to leave more money as part of their estate before they have to pay inheritance tax. The newest allowance has been increasing gradually since it was first introduced in April 2017, meaning anyone with residential property was given an extra inheritance-tax-free allowance. It will go up one final time in April to £175,000 per person.

This means that including the standard nil rate band, a couple can leave a property worth £1m entirely inheritance tax free. There are some tricky rules you have to stick to, so the property must be left to a child, grandchild, or step versions. Those with very large estates won't get the full amount, as anyone with an estate valued at more than £2m will lose the allowance by £1 for every £2 they are over this limit.

5 LANDLORD TAX BREAKS AXED...

Landlords will see another hike in taxes from 6 April, as their previous tax breaks are ratcheted down again. Over the past four years the Government has been gradually reducing the amount of mortgage interest landlords can use to offset against their income, with the final change coming this April.

It was cut last year so that only 25% of landlords' mortgage costs could be set again profits, but that falls again in April so that none of the costs can be offset. Instead buy-to-let investors will get a basic rate tax relief reduction at 20%.

The move only affects higher or additional-rate taxpayers, although the move itself will push some landlords from the basic-rate tax bracket into the higher-rate bracket. As an example, a higher-rate taxpayer landlord who gets £1,000 a month in rent and has mortgage costs of £600 a month would have paid £1,920 in tax pre-2017, but will pay £3,360 in tax from April.

6 ...WHILE SECOND HOMEOWNERS FACE HIGHER TAXES TOO

Anyone who has rented out their home after moving out, rather than selling it immediately, will face a higher tax hit from April. The Government has made three big changes to how the tax works when you come to sell this property.

Firstly, many sellers will lose the 'lettings relief' tax break, affecting how much capital gains tax you pay when you sell the property. Currently you get capital gains tax relief up to £40,000 per person (so £80,000 per couple) if you let out a property that was your main home.

From next year this relief will only apply to landlords who are actually living in the property with their tenants.

The next big change is to private residence relief, which currently means that any increase in the property's value during the final 18 months that you own a property is not counted for capital gains tax purposes. However, from April that will be limited to nine months.

The third change is that you will have to pay any capital gains tax you owe much more rapidly. Currently you just have to pay this bill by the end of the January in the following tax year, but from April you have just 30 days to pay the tax due on any gains from the sale of UK residential property. If you don't pay in this time you'll face fines from HMRC.

There's little landlords can do about these changes other than be aware of them.

7 STUDENT LOAN REPAYMENTS FALL

Graduates will get a small boost from next month, as the amount you can earn before starting to repay your student loan will increase from £25,725 to £26,575, a rise of 3.3%. It means if you earn less than £26,575 you won't pay anything back.

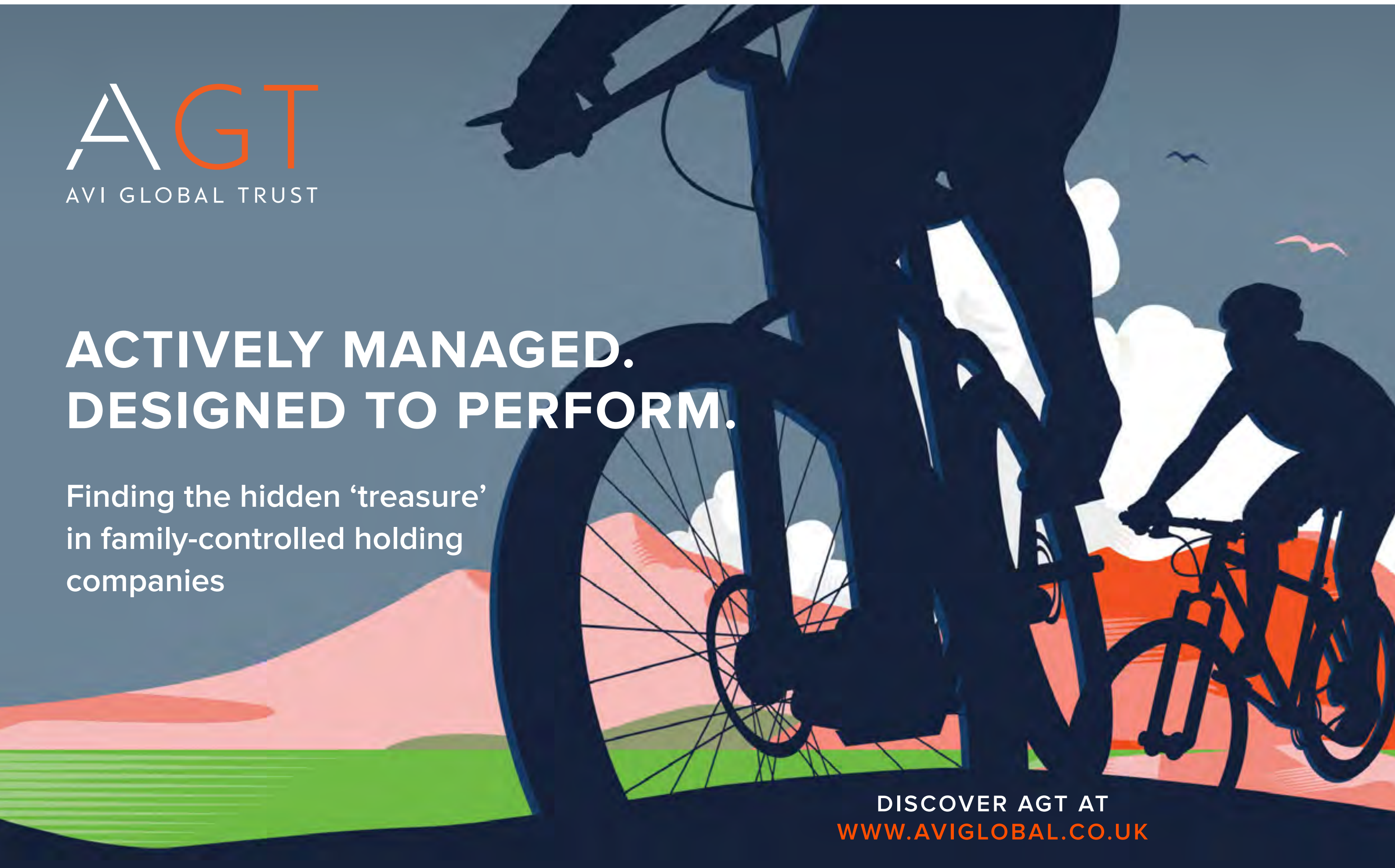
For those over this limit, you repay your loan at a rate of 9% above this figure, so the hike will mean graduates get an extra £76.50 in their back pocket. Meanwhile those on a Plan 1 loan – so those who went to university between 1998 and 2011 – will see their threshold rise from £18,935 a year to £19,390.

8 OVERDRAFT FEES WILL RISE

The new rules on how banks charge for overdrafts come into place in April, but in reality many banks are bringing in their new charging structures before then with lots settling on the 40% mark for overdrafts.

The FCA's rules aimed to simplify the overdraft market meaning banks won't be able to charge more for unauthorised overdrafts than for arranged ones, and they must advertise clear percentage fees, not an array of charges. In reality, many people in arranged overdrafts will see their costs double when the new charges come in.

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



Past performance should not be seen as an indication of future performance. The value of your investment may go down as well as up and you may not get back the full amount invested. Issued by Asset Value Investors Ltd who are authorised and regulated by the Financial Conduct Authority.

Which account should I use: an ISA, SIPP or dealing account?

We explain the difference between the three main accounts

It's easy to feel a bit overwhelmed when wanting to invest as there are so many decisions to make – how much to put in the markets, what to buy and when to sell.

You needn't be stressed as this series aims to give you all the information to make investing a lot easier.

One of the first decisions you'll need to make is which investment platform to use. By this we mean the company which provides your ISA, SIPP (self-invested personal pension) or dealing account, such as AJ Bell Youinvest.

When you sign up to an online platform you'll have the choice of different accounts and it's important you pick the right one for you. You can broadly invest in all the same assets in these accounts, but there are differences to tax, restrictions on the amount you invest and how long the money is locked up.

THE ISA ACCOUNT

A Stocks and Shares ISA lets you withdraw your money at any time. The advantage of an ISA is that you don't pay any capital gains tax when you sell an investment that's made you a profit. You also don't pay any income tax when any of your investments pay you a dividend.

You can pay up to £20,000 into an adult ISA each year, although you must deduct any money that you've already paid into other ISAs this tax year (such as a Cash ISA or Lifetime ISA).

THE SIPP ACCOUNT

Another option is a SIPP which is where you run your own pension pot. This also has tax benefits where you get tax relief from the Government.

For example for every £8,000 you contribute to your SIPP, the Government pays in an extra £2,000 – and if you're a higher-rate tax payer you can claim even more tax relief.

Anyone under the age of 75 can pay into a SIPP – even if you are not earning you can contribute up to £2,880 each tax year and receive tax relief on top.

Most people can pay up to £40,000 into their pension each year, as long as they earn that amount, but the limit is lower for some very high earners.

However, you need to be aware that your money is locked up and you won't be able to access it until you are at least 55 years old. When you do access it you'll pay income tax on some of the money you withdraw, unlike an ISA.

THE DEALING ACCOUNT

Your third option is a dealing account. This allows you to invest in all the same assets but comes with no tax benefits. There are also no restrictions on how much you can pay in or on withdrawing your money.

Often people will use this when they have exhausted their annual ISA allowance but don't want their money tied up in a pension (or have already maxed out their annual pension limit).

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

KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

23 March: Dunedin Enterprise Investment Trust, Medica Group, Pennant International, Quixant. **24 March:** 888 Holdings, Accesso Technology, Alliance Pharma, AG Barr, Cambridge Cognition, Eve Sleep, Fevertree, Kingfisher, Learning Technologies, Mears, Pelatro, Personal Group, S&U, STM, Xaar, Zotefoams. **25 March:** Cloudcall, DP Eurasia, Ergomed, Moss Bros, SDL, Spaceandpeople. **26 March:** Arbuthnot, Digitalbox, Ebiquity, Hilton Food, Impact Healthcare, Integrated Diagnostics, International Public Partnerships, Lamprell, Regional REIT, Secure Trust, Venture Life.

Half year results

23 March: Gfinity, Orchard Funding. **24 March:** Essensys, YouGov. **25 March:** Applied Graphene Materials, Bellway, Ricardo.

WHO WE ARE

EDITOR:
Daniel Coatsworth
@Dan_Coatsworth

DEPUTY EDITOR:
Tom Sieber
@SharesMagTom

NEWS EDITOR:
Steven Frazer
@SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR:
James Crux
@SharesMagJames

SENIOR REPORTERS:
Martin Gamble
@Chilligg

Ian Conway
@SharesMagIan

REPORTER:
Yoosof Farah
@YoosofShares

CONTRIBUTORS
Russ Mould
Tom Selby
Laura Suter

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

PRODUCTION
Head of Design
Darren Rapley
Designer
Rebecca Bodi

CONTACT US:
support@sharesmagazine.co.uk

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 Shares material is copyright.
Reproduction in whole or part is not permitted without written permission from the editor.

All chart data sourced by Refinitiv unless otherwise stated