STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

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STOCKS & FUNDS FOR YOUR ISA

PLUS: CORONAVIRUS LATEST: THE IMPACT ON DIVIDENDS, PENSIONS, PROPERTY FUNDS & MORE

Preaching patience amid the coronavirus crisis

Your portfolio may only need a small tweak rather than a drastic rethink

These are extraordinary times. In a matter of weeks the coronavirus outbreak has gone from an event which was seen as having a localised impact in mainland China to a global crisis which has effectively seen the pause button hit on the world's economy.

Equity markets, slower than other asset classes in pricing in this risk, are now reacting at pace and are down around 40% or more.

Just as in our day-to-day life, where many of us are desperate for news on when we might see a return to a measure of normality, so too investors want to know when the pain might be over.

Difficult as it is, we need to try and remain patient and not act too hastily. Governments and central banks across the globe are throwing huge resources at the situation but ultimately we probably need to see some breakthroughs on the medical side for sentiment to improve markedly.

In the meantime, checking your ISA every day won't help. That doesn't mean you should do nothing, it is worth at least doing a one-off examination of your investments and ditching shares in individual companies which have a dodgy balance sheet.

BALANCE SHEET AUDIT

You should examine how cash generative the company has been historically (even if this may be affected going forward) alongside its absolute level of borrowings and it's also worth looking at when its debt matures.

Many companies with distressed balance sheets have already seen their shares react accordingly but there is still a risk of being wiped out completely. Assuming you have the cash available there may also be opportunities to buy good, durable companies at attractive prices.

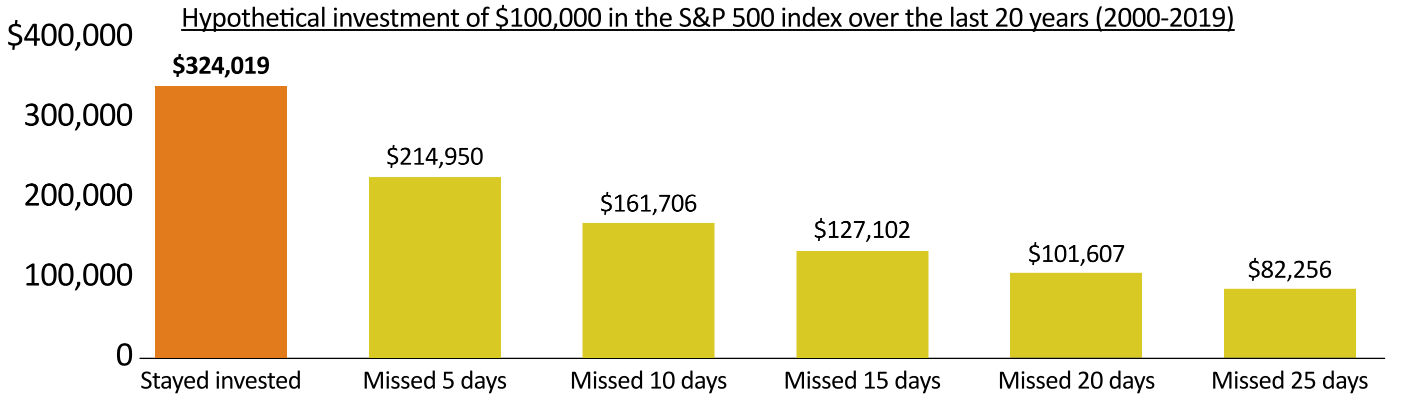
We highlight some long-term ideas to make use of your ISA allowance in this week's main feature.

Otherwise the best thing to do is to sit tight. Research from BlackRock shows that for a hypothetical $100,000 investment in the S&P 500 over the last 20 years (from 2000 to 2019) missing even just the best five days would have seen the size of your resulting investment pot drop by a third.

Shares will continue to provide insight and education through this tumultuous period and we are planning an in-depth article examining strategies for investors to get through the current volatility and hopefully emerge the other side bruised but not beaten.

By **Tom Sieber** Deputy Editor

STAY INVESTED: MISSING TOP-PERFORMING DAYS CAN HURT YOUR RETURN



Sources: BlackRock; Bloomberg.

Pau Buscato | London, 2016

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ask your financial adviser
or visit **Orbis.com**

Capital at risk

Orbis
Invest Differently

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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

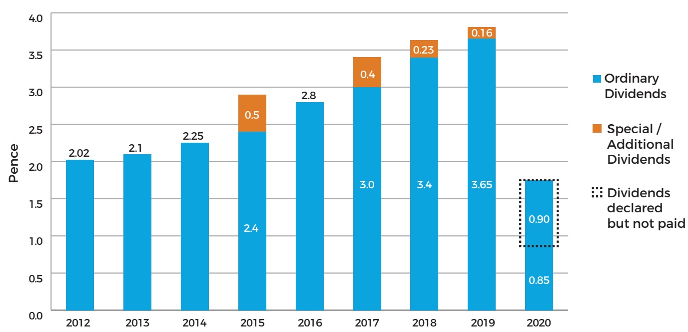
- **The value of shares and the income from them are not guaranteed and can go down as well as up.**
- **Past distributions of dividends are not a guide to future distributions. The level of income paid by the trust may therefore fluctuate and is not guaranteed.**

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

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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.

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MFP20/098

NEWS

Multi-billion stimulus unveiled as governments fight for global economy

Nations pull financial aid levers as investors prepare for Q1 earnings disaster

Central banks and politicians across the globe are desperately pulling whatever levers they can in an attempt to stem the macroeconomic gloom as the current health crisis continues to escalate.

With the UK now in lockdown, the UK government has announced a £350bn package of support in what is the biggest intervention in private sector business since the Second World War to help fight the economic impact of coronavirus.

Significant financial measures are widespread, with Germany signing-off on a €750bn stimulus package, while the US Fed has announced that it will carry out open-ended Treasury and mortgage-backed securities buying in whatever amount that is needed to keep the cost of funding down.

Estimates suggest ★ 30% ★ decline in US GDP

Global financial markets remain volatile in the face of what will be a disastrous first quarter earnings season, with some estimates suggesting US GDP could decline 30%. Analysts at Saxo Bank said that they 'would not be surprised to see earnings per share decline by 50% to 70%' over the next few months, which chimes with oil prices below $30 a barrel.

But much of this is already priced in to equities so the earnings releases will mostly be about more detail on the impact on the ground and outlook if a company dares to give one.

China offers the world a glimmer of hope

Chinese stocks have done better than others, and domestic investors are betting on a bounce back

A GLIMMER OF hope from the coronavirus pandemic could come from China, which is starting to come out the other side as new cases fall and lockdown restrictions begin to ease.

While the crisis in the country is far from over, Chinese premier Xi Jinping said most of China is now 'low risk' as it starts to return to normal.

Chinese officials are now enacting several policy measures to get citizens out spending again and Chen Yulu, a deputy governor at the People's Bank of China, told a news conference while the economy would contract sharply in the first quarter, he expects a significant improvement in the second quarter.

China's vast, growing economy makes it one of the biggest global consumers of many goods and commodities.

Investors may be watching China closely to see if it can offer a inspiration for a potential exit strategy from the containment measures launched in the West.

The Shanghai Composite is down only 12% year-to-date compared to a 28% fall in the S&P 500.

Top five China funds performance year-to-date

JPMorgan China Growth & Income	0%
Baillie Gifford China	-9.25%
Janus Henderson China Opportunities	-10.30%
First State Greater China Growth	-13.11%
Fidelity China Special Situations	-14.90%

Source: Shares, Morningstar. Data to 24 March 2020

Are any dividends safe?

Companies are cutting their payouts left, right and centre as they contend with the coronavirus

The FTSE 100 index is offering a prospective dividend yield of 5.6% according to data from Stockopedia, but the slew of cancelled payments throws into doubt even those regarded as rock-solid.

THE DAMAGE IN PERSPECTIVE

Incredibly, the total amount of cancellations, which is currently worth £1.6bn and counting, equates to the entire dividend growth that was expected for the whole of 2020 according to data from AJ Bell.

That would have represented growth of just 2% from the £89.1bn paid-out in 2019 and a cover of 1.62 times earnings, below the threshold of two times, considered to be safe.

In other words, even before the unseen outbreak of the global pandemic, dividend cover wasn't sufficient to provide investors with much comfort.

As we have pointed out in past articles, it is the sustainability of a dividend and whether the future growth is likely to be above the rate of inflation which is more important than the absolute size of the yield.

BIGGEST CONTRIBUTORS

The five largest cuts account for half the lost income and cover household names like TV producer **ITV (ITV)**, which is the biggest victim so far in terms of the total value, worth some £216m.

The shares have dropped 63% from the highs in December and on the face of it, were offering investors a 13% yield, before the cut. When interest

Biggest dividend cuts by value (year to date)

Announced	Company	Dividend cut/deferral by value
23-Mar-20	ITV	£216.2m
18-Mar-20	MicroFocus	£165.1m
23-Mar-20	Kingfisher	£158m
20-Mar-20	Marks & Spencer	£132.6m
20-Mar-20	InterContinental Hotels	£120.4m
25-Feb-20	Hammerson	£91.2m
20-Mar-20	Travis Perkins	£83.2m
12-Feb-20	Intu	£62.3m
19-Mar-20	Crest Nicholson	£56m
16-Mar-20	William Hill	£46.7m
20-Mar-20	Aggreko	£46.5m

Source: AJ Bell

rates are virtually zero, high yields are nearly always a red flag and a sign that the pay-out is at risk.

For ITV, it's not just the cancellation of a number of high profile sporting events which has reduced their attraction to advertisers. Containment measures for coronavirus have even resulted in the suspension of popular soaps, such as Coronation Street and Emmerdale.

European DIY firm **Kingfisher (KGF)** omitted its dividend, worth £158m after its 221 sites across France, comprising brands Castorama and Brico Depot were closed down by the government to prevent the spread of the virus.

Marks & Spencer (MKS) decided to cut its £133m dividend on concerns that a prolonged down-turn in the economy would have on its Clothing and Home division.

This decision was made despite the food division trading profitably through the current crisis, helped by people stock-piling, although the group's bias towards chilled and fresh items means they are not benefitting to the same extent as other food retailers.

Notably, despite the collapse in oil prices, **Royal Dutch Shell (RDSB)** has resisted the temptation to cut a dividend which has not been trimmed since the Second World War, instead it has curbed its buyback and looked to make further efficiencies.

WHAT NEXT?

It is worth bearing in mind that just 10 stocks account for 98% of the expected growth in dividends for 2020, including big payers, **Imperial Brands (IMB)**, **Royal Bank of Scotland (RBS), Standard Chartered (STAN) and M&G (MNG)**.

It remains to be seen whether these firms with yields of 7% to 16% will be able to buck the recent trend.

BATM hopes for summer launch of coronavirus home testing kits

Israeli medical equipment firm eyes easy-to-use virus check breakthrough

A NEW DIAGNOSTIC home testing kit for the coronavirus could be ready within three to four months, according to one specialist equipment manufacturer.

AIM-quoted **BATM Advanced Communications (BVC:AIM)**, a medical equipment designer based in Israel, has gone into partnership with life sciences firm Novamed for the project. The company is hopeful of launching the testing kits by early summer, once CE certification has been secured, giving thousands of households the ability to check for signs of the coronavirus at home.

'We recognised the necessity for an easy-to-use and reliable test that can be done at home to help reduce the pressure on the already-congested hospitals and minimise patient exposure,' said Dr Zvi Marom, chief executive officer of BATM.

Shortages of high-quality coronavirus testing equipment have been reported across the NHS and healthcare services around the world.

The news follows last month's announcement of new coronavirus diagnostic equipment designed for use in medical facilities. Clinical tests have shown an 'excellent performance' of the kit's ability to diagnose the coronavirus within an hour using real-time polymerase chain reaction, a widely-used technique in molecular biology. Shipments of the diagnostic kit, designed by Rome-based Adaltis, have now started.

'We are clearly very encouraged about ongoing news flow in the Bio-Med business as the company now shows evident progress towards developing a COVID-19 testing kit,' said Stifel analyst Luke Holbrook.

Panic buying of US dollar sends sterling to 35-year low

Dash for liquidity also sends many emerging market 'carry trades' to historic losses

In the past week the US dollar has soared against other currencies as investors have stampeded into what are considered safe-haven assets on fears that the coronavirus will send global economies into freefall.

At one point, sterling hit a 35-year low against the US currency at $1.15, partly on the dash for dollars and partly on fears that the UK Government was behind the curve in its treatment of the coronavirus pandemic.

DOLLAR DEMAND SURGES

Demand for the dollar, the world's number one reserve currency, has surged to record highs amid a rush for cash on concerns that the coronavirus pandemic could take longer than expected to bring under control.

As one multi-asset manager put it, 'nobody wants duration risk, nobody wants equity, everybody wants cash and the reserve currency is the dollar'.

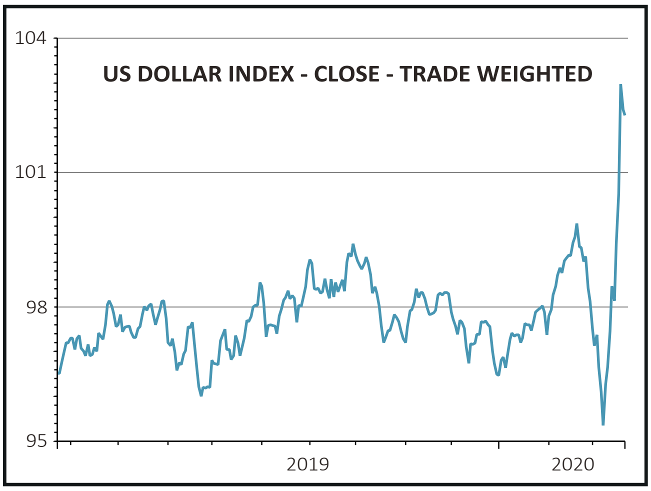
The scramble for liquidity is not expected to change in the short term, and central banks around the world are trying to find ways of getting dollars to those that need them.

The US Federal Reserve agreed to lend billions of dollars at near-zero interest rates to central banks in Australia, Japan, South Korea, Switzerland and half a dozen other countries who had seen sudden and unprecedented buying of the US currency.

Bloomberg quoted a foreign exchange strategist at an Asian bank as saying 'the dollar is rallying on haven demand as markets are digesting the implication of job losses and a prolonged economic downturn'.

EMERGING MARKETS HAMMERED

As well as heavy losses in sterling there was huge pressure on emerging market currencies. Among



the hardest hit were Asian currencies such as Indonesian rupiah, Malaysian ringgit and Thai baht as more countries shut their borders and imposed restrictions on freedom of movement.

The Korean won, seen as particularly vulnerable to a global growth slowdown due to Korea's large manufacturing industry, also came under selling pressure as investors fretted over capital outflows.

Rating agency Standard & Poors, which last week warned that the pandemic could cost the Asia Pacific region $400bn in economic losses, this week raised its forecast of the potential loss of income to $620bn.

HISTORIC LOSSES ON CARRY TRADES

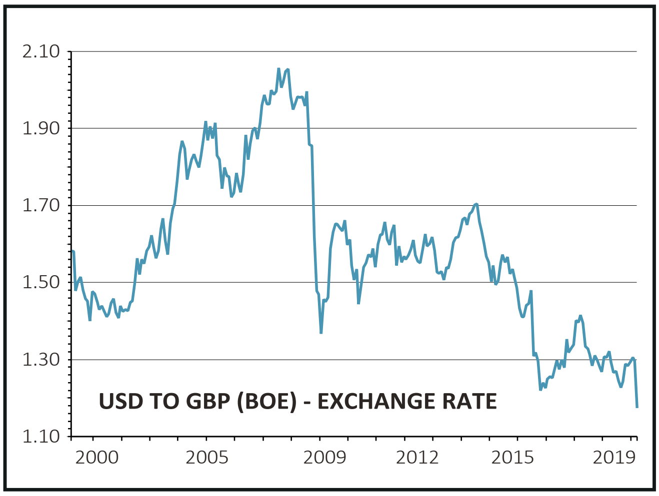
'Carry trades', where traders borrow low interest rate currencies like dollars or yen and use that money to buy higher interest rate currencies like those in emerging markets, have suffered historic reversals as demand for dollars has soared.

The synchronised rush to buy dollars sent carry trades involving emerging market currencies towards their biggest quarterly loss in more than 20 years.

According to data compiled by *Bloomberg*, the average return on carry trades in emerging market currencies is -13% so far this year. Moreover, traders believe that the selling of currencies such as the rupiah and the won may have further to go.

Currencies in more developed markets such as Mexico, South Africa and Turkey have also been pressured with carry-trade losses mounting in these markets.

Another factor undermining these trades has been the sudden increase in volatility. Carry trades typically rely on a steady trend continuing



into the future with little change in volatility.

One currency trader said: 'This is not the time to play carry trades. The key for carry trades to thrive is volatility remaining low. The world has changed and it's hard to see a revival in carry trades.'

RISKS IN CREDIT AND EQUITY

Along with the surge in demand for dollar liquidity there has been a huge flow of funds out of credit and equity investments. Credit quality has been deteriorating steadily since the financial crisis with the result that much of the corporate borrowing of the last decade is low grade.

Firms experiencing a sharp drop in revenues and profits risk seeing their debt downgraded, which increase the refinancing risk. This in turn puts pressure on credit spreads – the rate which firms have to pay above the rate on government debt – which in turn means a liquidity squeeze.

Mohamed El-Arian, chief economic adviser to Allianz Investors, believes that investors were living in a 'dream world' last year as three things happened which don't normally occur together, lulling investors into a false sense of security.

'Firstly, investors received massive returns on their risky assets including equity markets. Secondly, investors made money on risk-free assets such as bonds. And thirdly, this all happened in a context of virtually no volatility.'

Investors therefore took on more risk than they were typically comfortable with because there seemed to be no downside.

However there is now a genuine risk that equity shareholders could be wiped out if they own any financially weak companies which subsequently go bust, and bondholders aren't necessarily guaranteed to get their money back. Hence the sudden, coordinated dash for cash.

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.

Our approach to investment ideas in the current climate

An insight into how the Shares team are currently thinking about events

IN THE MAGAZINE over the coming weeks will be helpful hints on how to manage your existing portfolio and your broader personal finances. We will also keep you informed about all the important developments on the markets.

Investors around the world will have seen the value of their portfolios fall this year, some by a large amount. Understandably many people are worried about what could happen next and they are thinking more about turning their assets into cash rather than making investments at cheaper prices.

There is a growing concern in many households about job security. The last thing some people want to do is risk putting more money into the markets, only for it to potentially fall in value. After all, we've got quite used to seeing 3%+ falls in the stock market on a daily basis for the last month.

We don't know when markets will recover in earnest, nobody does.

Under these circumstances, you might suggest that we temporarily stop offering investment ideas in the magazine.

We have thought seriously about the issue and have concluded that there is still a large chunk of people who are looking for ideas at depressed prices.

Ideally individuals putting money into the markets should only be ones fortunate enough to have spare cash and an appetite for risk. Importantly, they should be focused on the long-term and accept there could be short-term bumps along the road with their investment journey.

In times like these it is vital to get your personal finances in order before you make any investments. If there is any chance your normal salary could be reduced then you need to ensure you have spare cash to pay the bills and any loan repayments. Only once they are factored in should you think about topping up your investments or deploying cash already in your account.

Remember you can drip feed cash into any of these accounts and invest later if you're still nervous. That way with ISAs in particular you would still be able to make the most of the annual allowance before the end of the tax year.

For now we are going to tailor our investment ideas towards stocks that are in a strong financial position and funds run by managers with a proven investment process and where we have confidence that they will make the right decisions to generate value over time.

We care about our readers and don't want to add to people's worries by suggesting to trade the market looking for opportunities to make a quick buck. Timing the market is very hard and getting it wrong could compound your losses.

Above all, the most important thing at the moment is to stay healthy.

By **The Shares Team**

Fundsmith shines in both an up and down market

Quality-focused fund is outperforming even during the current volatility

It is times like now where investors should think hard about using the services of a fund manager to help pick the best companies and, perhaps more importantly, avoid the worst ones.

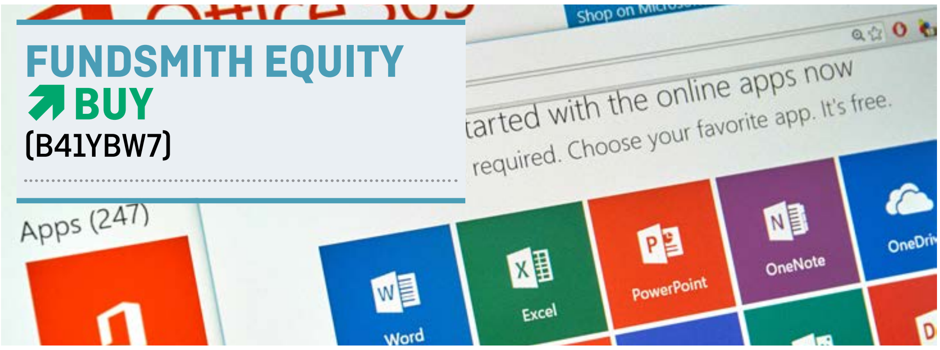
Terry Smith-steered **Fundsmith Equity (B41YBW7)** proved to be a winner during the bull market with significant outperformance. However, it has never been tested in a proper market correction – until now.

When everything is going well with the stock market you want an actively-managed fund that can outperform a basic tracker fund. When things are going badly with equities, you want your fund to fall by less than the market.

Fundsmith is managing to do both of these things. From launch it November 2010 to the end of 2019 it achieved 364.4% total return versus 181% from the MSCI World index – so it generated twice as much for investors than the market.

So far this year, up to 23 March, the accumulation version of the fund has only fallen 14.1%, compared to a 21.4% decline in the MSCI World index.

FUNDSMITH EQUITY
BUY
(B41YBW7)



FOCUS ON CASH

A key reason why Fundsmith is doing better than the market in the coronavirus pandemic is its focus on cash-generative companies that have historically made very strong returns on the money they invest in their business. It also avoids companies that require significant borrowings to generate returns, hence why you won't see banks or utilities in the portfolio.

The market is punishing companies with large debts at present for fears of a cash flow crisis, so Fundsmith has managed to distance itself due to its preference for financially-strong businesses. The fund also benefits from having a third of its holdings in consumer companies whose products are often bought in both good and bad times.

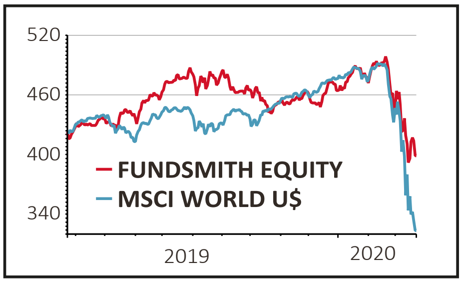
The portfolio includes technology group Microsoft which benefits from recurring revenue thanks to customers paying a subscription for services such as Office. Its laptops are also likely to be in hot demand as millions of people suddenly find themselves working from home and needing equipment.

Other positions in the portfolio include insulin producer Novo Nordisk and Idexx Laboratories, a designer of diagnostic testing equipment for monitoring animal health and analysing dairy products.

There is no guarantee that Fundsmith will continue to outperform the market on a relative basis, but its proven investment process gives it an advantage.

Investors should only consider putting money into the fund near-term if they understand the risks that it could fall in value and that they don't need the cash for essentials like paying the bills or paying down debts.

DISCLAIMER: The author has a personal investment in Fundsmith Equity



By **Daniel Coatsworth**
Editor

OCADO
(OCDO) £13.43

Gain to date: 13.2%
Original entry point:
Buy at £11.87, 25 July 2019

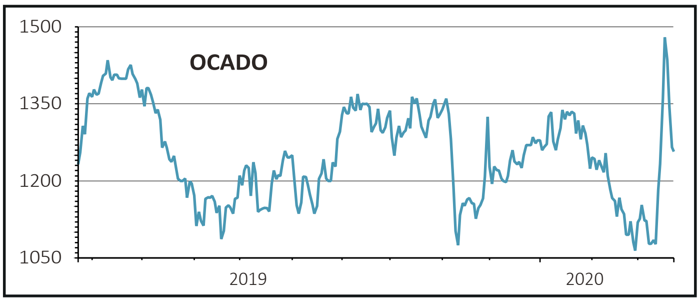
SHARES IN ONLINE food retailer **Ocado (OCDO)** surged after the firm reported (19 Mar) a 10% increase in new orders in the quarter to 1 March and a rise of double that in the first part of March itself as shoppers flooded to its website.

The leap in demand of late, both in terms of number of orders and average basket size, has put the business under 'unprecedented strain' according to the statement.

In order to manage the step-change and ensure it can continue to deliver on time, the firm has stopped new customers from registering on its website, installed a queuing system in order to cope with the 'several hundred percentage increase in web traffic' and temporarily shut its app so that it can concentrate on web orders.

The firm said that despite the unprecedented surge in orders it hadn't changed its full year forecast of 10% to 15% revenue growth as it expects what it calls this 'forward buying' – a polite term for stockpiling – to unwind at some point later this quarter, particularly in ambient foods.

However, with the UK government tightening its lock-down and requiring people to stay indoors for the next three weeks except for essential business, it's likely that online ordering will become yet more popular with shoppers.



SHARES SAYS:
Ocado is well placed to ride out the coronavirus crisis.

RESTORE
(RST:AIM) 360P

Loss to date: 14.2%
Original entry point:
Buy at 420p, 18 July 2019

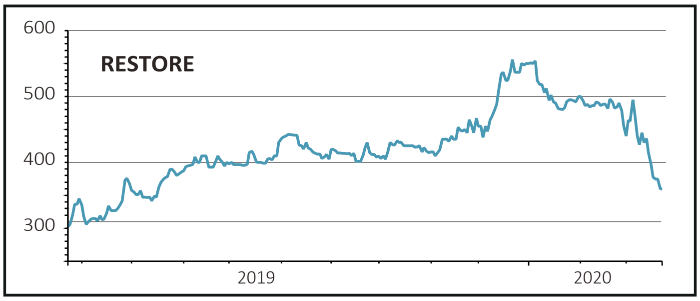
THE LATEST RESULTS from document management firm **Restore (RST:AIM)** show that the business continues to fire on all cylinders, gaining market share while at the same increasing profit.

Revenue for the year to 31 December was 10% higher, driven by a combination of high recurring revenues in lower-growth markets like records management and shredding, where increased regulation helps to drive sales, and above-market growth in faster-growing segments like digital scanning and IT recycling and relocation.

As well as generating steady organic growth thanks to top-tier positions in each of its businesses, the management team is always looking to increase market share and cross-selling opportunities through attractive bolt-on acquisitions.

Due to the fragmented nature of many of its markets, there is significant room to continue growing while at the same time a focus on technology and operating efficiency means that margins and earnings can expand faster than revenues. Profit last year was up 13%.

Chief executive Charles Bligh is wholly-focused on growing Restore's cash generation, which together with the firm's strong financial base ensures it is well-placed to ride out the current crisis and will be 'the first out of the blocks' when the economy normalises.



SHARES SAYS:
We remain positive on the shares.

WisdomTree®

STRATEGIC AND TACTICAL CASE FOR **GOLD**: A PRECIOUS ASSET IN TURBULENT TIMES

Gold as a strategic asset

Gold is a defensive asset that often rises when other assets like equities are falling, but in good economic times, the metal doesn't necessarily fall. Gold prices rise with inflation that you typically find in times of economic growth. As a result of this asymmetric behaviour, gold is a great strategic asset for a portfolio: its insurance qualities come to the fore in bad times, yet in good times it's not a drag on a portfolio.

Gold price behaviour

Gold is considered an excellent 'store of value' because it is WisdomTree's research into gold price behaviour highlights that the metal is largely influenced by the following factors:

+ **Interest rate environment**: Falling interest rates are gold price positive.

+ **Inflation**: Gold prices rise with inflation.

+ **Exchange rates**: Gold priced in US Dollar terms tends to rise as the US Dollar depreciates.

+ **Investor sentiment**: One way we measure this is to look at how many investors are trying to access the metal trough the futures market. Investor sentiment towards gold tends to rise in periods of financial anxiety and its price generally rises.

A tactical case for gold

Having characterised gold price behaviour, we can use these insights to project where gold prices could go. While predicting the future is fraught with many difficulties, we can say what gold prices would be consistent with our model framework.

Gold prices if turbulence is prolonged

If we simply keep the interest rate environment, the Dollar exchange rate, inflation and investor sentiment towards gold at the levels we are witnessing today for the remainder of the year, we could see gold prices head over US$2000/oz, which would mark an all-time high. Let's explore this a little further:

Financial turbulence drives safe-haven gold demand

In 2020, we are experiencing turbulent times. Equities, oil and other cyclical assets have had a violent price correction in March 2020. Gold has performed strongly in this environment as we expected. Gold, viewed as a safe-haven asset, is expressing investors' anxiety about current turbulent times. For this reason, investor sentiment towards gold is very strong.

A low interest rate environment

In response to the financial dislocations, central banks across the world have cut interest rates. In the US, yields on US 10-year Treasuries have fallen to an all-time low (0.35% on 10th March 2020).

Inflation elevated

Inflation in the US was 2.5% in January 2020, which is elevated. That could easily come down with a fall in oil prices and depressed demand, but equally, damage to global supply chains in the current environment may raise prices of some goods. So, a decline in inflation is not guaranteed.

US Dollar – a haven asset that has slipped in periods of high turbulence

When there is strong haven-demand for gold, there is often strong haven-demand for the US Dollar. But as the US central bank cut interest rates before most other central banks, the US Dollar depreciated. We could see that reverse as more central banks ease the policy setting.

Gold prices if shock is temporary

We acknowledge that the elevated investor sentiment towards gold and low interest rates environment is product of the response to the economic and financial shock. If this shock is temporary and the financial dislocation subsides, we could see gold prices trim back to US$1640/oz at the end of the year, based on the model. That would be a world in which positions in gold futures are less than half of where they are today and US Treasury yields rise all the way to 2%. If the model is correct, then the downside is quite limited.

- **To learn more about investing in gold, please visit:** [WisdomTree.eu/Gold]

- **To access a list of relevant gold products within the AJ Bell Youinvest platform, please visit:** [AJ Bell Youinvest - Gold]

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Why these stocks have performed so badly in the coronavirus crisis

Oil, betting and fashion firms have been among those hardest hit

While a large part of the public has been panic buying amid the coronavirus pandemic, an even bigger percentage of investors have been doing the opposite.

Panic selling has been rife across stock markets in recent weeks, leading the share prices of many companies to tumble dramatically.

Some of the hardest hit had financial difficulties anyway but others, despite their strong balance sheets, have also been shown no mercy by the market.

PRE-EXISTING PROBLEMS

The two biggest fallers, diamond producer **Firestone Diamonds (FDI:AIM)** and logistics company **Eddie Stobart Logistics (ESL:AIM)**, had big problems well before the virus outbreak.

Firestone shares have fallen the most, with the company dealing with operational problems its chief executive admitted have had a 'devastating impact', as its cash balance fell and sales in its second quarter fell 21%, while the diamond market was in a rut well before the current pandemic.

Eddie Stobart shares have never recovered following their six month suspension from trading, after an accounting review led to a big profit warning and the ousting of its chief executive. Shareholders were also significantly diluted after private equity firm DBAY Adivsors took a 51% stake in exchange for £70m in much-needed liquidity.

Financial services company **Finablr (FIN)** (now suspended) meanwhile was one of the top five fallers as it dealt with the murky issues of who owns it, as well as major cybersecurity problems at its foreign exchange subsidiary Travelex, while Jet2 owner **Dart Group (DTG:AIM)** is another big faller thanks to the well-documented problems with airlines.

BIGGEST FALLERS SINCE MARKET SELL-OFF BEGAN IN EARNEST

Company	% fall
Firestone Diamonds	-92%
Eddie Stobart Logistics	-86%
Reach4Entertainment	-85%
Finablr	-84%
Dart Group	-84%
Premier Oil	-84%
Laura Ashley	-84%
Restaurant Group	-84%
Solo Oil	-84%
Kosmos Energy	-83%
William Hill	-82%
John Menzies	-82%
Superdry	-82%
BigDish	-81%
Countrywide	-80%
Tullow Oil	-80%
Gfinity	-80%
Costain	-80%
Arena Events	-80%
Itaconix	-80%

Source: SharePad. Data 21 Feb 2020 market close to 19 March 2020

OIL SECTOR SLIPS UP

As a sector, one of the biggest losers since markets started crashing has been oil companies, with oil prices at their lowest level in 17 years as demand plunges.

This is because travel lockdowns in some of the world's biggest economies has massively reduced fuel demand as significantly more people stay at home, while the situation has been exacerbated by a price war between Saudi Arabia and Russia, the first and third largest oil producing countries in the world.

The two countries have previously worked together when it comes to crude oil, but fell out because Russia didn't agree with Saudi Arabia's calls for further cuts in oil production to boost the price.

Despite the plunging price, neither side is backing down and both are continuing with their plans to boost oil production, meaning the market is becoming flooded while demand plummets.

This help explains why shares in oil giants **BP (BP.)** and **Royal Dutch Shell (RDSB)** have more than halved year-to-date, an unprecedented decline.

FTSE 250 oil companies **Tullow Oil (TLW)** and **Energean Oil & Gas (ENOG)** have been hit even worse, tumbling 80% and 60% respectively. Companies in this sector with significant borrowings, like Tullow, have been particularly hard hit.

Trade body Oil & Gas UK said plunging demand coupled with the price war has created a situation 'we have really never seen before', and expressed fears it could kill the UK's oil industry.

BOOKIES BATTERED

Meanwhile, lockdowns and widespread job insecurity also mean consumers are spending a lot less.

Betting company **William Hill (WMH)** has been massively affected by shutdown of professional world sport, with 53% of its 2019 revenue coming from its sports business.

This year would've been a big one with Euro 2020 and the Olympics, but both have been postponed, while the Premier League – a great source of income – has no set timeframe to get going again, with the prospect of a shortened season next year also likely to dent revenues. No wonder its share price has plunged 82%.

Another huge faller in the retail space is **Laura Ashley (ALY)** which has filed for administration.

Perhaps more surprisingly online fashion retailer **ASOS (ASC:AIM)**, has also been hit with its shares plunging almost 65% so far in 2020 despite the fact people can still order products online.

With our social lives potentially on hold for an indefinite amount of time, comments last week from **Next (NXT)** chief executive Simon Wolfson in his company's full year results were telling.

He said, 'It is now very clear that the risk to demand is by far the greatest challenge we face and we need to prepare for a significant downturn in sales for the duration of the pandemic… People do not buy a new outfit to stay at home.'

WHAT'S GOING ON WITH WHITBREAD

Another curious case has been

Premier Inn owner **Whitbread (WTB)**, whose share price has also more than halved year-to-date.

The company seems to be practically the only one not to have issued any update in response to the coronavirus pandemic.

This is despite Holiday Inn owner **InterContinental Hotels (IHG)** saying last Friday that 'demand for hotels is currently at the lowest level we've ever seen'.

The biggest hotel chain in the UK by number of rooms is Premier Inn by some distance, boasting over 79,000 rooms. By comparison, its nearest rival Travelodge has around 40,000, while IHG's Holiday Inn and Holiday Inn Express have a similar amount combined.

The company hasn't given the market any sort of update, but told the media all of its Premier Inn hotels will remain open and reiterated its 'strong financial position', with net debt down to just £78m, compared to £2.5bn previously, following the sale of Costa Coffee.

By **Yoosof Farah**
Reporter

The companies standing tall amid coronavirus headwinds

Measures taken to contain the outbreak are not affecting all businesses equally

Few firms will be left unscathed from the knock-on economic effects of global actions to contain coronavirus, with recession almost assured over the next few months. The burden will certainly be felt most in the consumer facing sectors of the economy, but not all businesses will be affected to the same extent.

Two recurring themes that separate the following firms include a flexible operating structure, which embraces digital working practices and having products or services seeing demand independent of the state of the general economy.

BUSINESSES RESILIENT TO CORONAVIRUS

Company	Relative Performance (%)	
	One month	Three months
Strix	7%	3%
Contour Global	34%	32%
Team17	46%	112%
Alpha FX	22%	35%

Source: Stockopedia, data to 23 March.

BUILDING A HEAD OF STEAM

One surprising example because of where it operates is kettle safety controls company **Strix (KETL:AIM)**. At its full-year results announcement (18 March) the company confirmed that the coronavirus impact was limited to its Guangzhou manufacturing plant, which is situated around 1,000 kilometres from Wuhan, the centre of the outbreak.

The plant was closed for just an extra week in line with Chinese government imposed policy, after the lunar New Year celebrations. Production resumed on 10 February and has since recovered close to full capacity, sufficient to meet customer demand.

International owner and operator of contracted power generating assets **ContourGlobal (GLO)** announced preliminary results on 17 March where it highlighted no material impact from coronavirus so far and, importantly it saw no impact for the rest of 2020.

The group has a distributed office strategy rather than a single headquarters and the company's nine senior executives are based in five different cities.

The company has taken proactive measures related to power plant shifts, remote monitoring and operating technology and critical spares and inventory, to minimise operational risks. Each of the company's power plants and offices are interconnected with video, audio and data.

LIMITED IMPACT FOR FOREX BROKER

Institutional foreign currency (FX) broker **Alpha FX (AFX:AIM)** provides risk management and payment solutions to corporations across 30 countries. The company has grown profit and revenue every year for the last decade, demonstrating demand for its services and the quality of its offering.

Annual results to 31 December showed revenues up 51% to £35.4m and operating profit up 47% to £14.7m, underlining momentum in the business. In regards to coronavirus the company says it is monitoring the credit quality of its clients and liquidity risk caused by increased

Company	Performance
Ocado	26%
Morrisons	3%
Sainsbury	-0.2%
Hastings	-2%
Reckitt Benckiser	-4%
Admiral	-5%
Unilever	-5%
ContourGlobal	-6%
Hikma Pharmaceuticals	-6%
Daejan	-7%

Source: SharePad. Data 21 Feb 2020 market close to 19 March 2020.

WHICH FTSE 350 STOCKS HAVE HELD UP BEST?

It's probably not surprising to see the shares of supermarkets, **Ocado (OCDO)**, **Sainsbury's (SBRY)** and **Morrisons (MRW)** performing better than the market, given the empty shelves and long queues that have become a common sight across the country.

According to government figures, Brits have forked-out an extra £1bn on stockpiling goods, such as pasta, rice and toilet rolls as panic set in over enforced home isolation. Ocado has temporarily stopped taking new customers as it struggles to keep-up with the demand surge.

On top of that, the government has introduced a business rates moratorium which for example could save Sainsbury the equivalent of close to a year's profits.

Insurers **Admiral (ADM)** and **Hastings (HAST)** should benefit from fewer motoring claims as people work from home and use their cars less for commuting. There is normally a strong relationship between miles driven and the number of accidents on the roads.

Admiral reported a record pre-tax profit of £526m on 5 March for the year ended 31 December 2019 and described the business as 'going like a freight train'. The groups UK insurance unit was the main driver behind the strong increase in business.

Nurofen to Dettol maker **Reckitt Benckiser (RB.)** has seen analysts upgrade their earnings expectations as consumers increase their purchases of health and hygiene products.

The same thinking applies to **Unilever (ULVR)**, whose staple product range includes soaps and cleaning materials, gives their revenue some protection relative to the cratering sales seen in other parts of the economy.

market volatility carefully, but so far has seen limited impact.

In addition, because the company operates cloud technology it is well placed to operate remotely enabling the delivery of services to clients while also safeguarding the health of its employees.

TEAM PLAYER

Global games developer **Team 17 (TM17:AIM)** reported record gross profit up 49% to £29.5m on 10 March. With a strong back catalogue which generated 71% of 2019 revenues and a healthy pipeline of new games, the business seems in rude health.

Gaming analytics firm Newzoo estimates that the gaming market will grow at a compound average growth rate (CAGR) of 9%, reaching a market value of $196bn by 2022.

The short-term outlook is clouded by a more challenging economic outlook, and the possibility of big job losses and falling consumer expenditure. Also, the wider gaming industry has been impacted by many big expos being cancelled including the popular GDC and E3 events, and speculation the new PlayStation and Xbox may be delayed.

Mitigating these developments, many events have simply transformed into online-only or live Twitch streams, utilising the already established online gaming community and technology available.

By **Martin Gamble**
Senior Reporter

WHAT DOES **DEFENSIVE INVESTING** MEAN TODAY?

BLACKROCK NORTH AMERICAN INCOME TRUST PLC

As the economic cycle matures, investors may be looking for a way to introduce greater resilience in their portfolios, but traditional defensive investment strategies may not be the answer.

Tony DeSpirito
Co-Manager, BlackRock North American Income Trust plc

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

There can be little doubt that this economic cycle is reaching its later stages. We have had near uninterrupted expansion in the US stock market for over a decade and the economy has seen a clean run of growth. While we see no imminent reason for a slowdown, to our mind, it is best to be prepared.

But what does this look like today? This isn't straightforward. Many of the old rules about how to invest more defensively do not apply. Moving into government bonds, for example, no longer looks like a particularly 'safe' strategy given the low yields on offer. The same is true for the stock market. Traditionally defensive areas look overpriced and may not provide the resilience a portfolio needs. In this environment, we believe it is vitally important to look at each company on its fundamentals, rather than succumb to broad-brush thinking on what 'should' work in a maturing cycle.

THE USUAL SUSPECTS

For example, a natural choice for this stage in the market cycle might be areas such as real estate, consumer services and communications. However, these areas have been caught up in the 'bond proxy' trade that has been so persistent for the past five years. 'Bond proxies' are where those companies with bond-like qualities have been adopted by investors moving out of fixed income into the stock market in search of higher yields. Prices are simply too high for these areas to act as a defensive option in a more difficult climate.

On the other hand, we are not tempted to compromise on

quality in this environment, no matter how cheap share prices have become in certain segments of the market. Loose monetary policy and benign economic conditions have kept many companies afloat that might not otherwise have survived. They may finally see a downturn should the environment change. 'Cheap' may prove illusory with cheap companies becoming even cheaper.

HIGH QUALITY

We want to be invested in those higher quality companies whose earnings we can reasonably forecast into the future. These companies are likely to be in a better position to weather any incoming storms. Today, we are finding more of those companies in the energy and financials sectors, despite these being seen as more 'cyclical' areas. We can also find companies that meet our criteria in the technology sector – though, admittedly, in niche subsectors rather than some of the expensive global technology giants. While we are both value, quality and income investors and technology does not usually fit the bill, investors need to look beyond those labels in today's environment.

For any income strategy, it is important to be invested in companies that are generating income organically in this environment. Too often, companies are paying out more than they can realistically afford based on their earnings. This tactic leaves them particularly vulnerable in a weaker economic and market environment.

ISAs have a role in almost all portfolios, but they are particularly useful for income seekers. Unlike a pension, ISAs don't offer tax relief on contributions made, but all income can be taken tax-free. This is a significant advantage at a time when interest rates are low and income scarce.

BlackRock

GROWING DIVIDENDS

For us, it is vitally important not only that a company can pay its dividends today, but that it can grow its dividends tomorrow. We base our judgement on cash flow; what is left for the shareholder when all a company's other commitments have been paid. Good cash flow means the management team has been disciplined and that the company is likely to have competitive resilience.

In terms of how this looks in the portfolio, it means that the companies we hold are diverse – from large US banks to Microsoft – and they do not fit the natural assumptions about 'quality' or 'defensive' or 'value' stocks. It is what we see that is important, not the characteristics the market assigns to these stocks. This is a recognition that the world is changing – information technology can be the new consumer staple, for example. We believe this realistic appraisal of a company's true merits will be vitally important as we move into a more challenging environment.

For more information on this Trust and how to access the potential opportunities presented by North American markets, please visit www.blackrock.com/uk/brna

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

Unless otherwise stated all data is sourced from BlackRock as at March 2020.

TO INVEST IN THIS TRUST CLICK HERE

Risk Warnings

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

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Exchange rate risk: The return of your investment may increase or decrease as a result of currency fluctuations.

Risk to capital through derivative use: The Fund may use derivatives to aim to generate more income. This may reduce the potential for capital growth.

Capital growth/Income variation risk: Investors in this Fund should understand that capital growth is not a priority and values may fluctuate and the level of income may vary from time to time and is not guaranteed.

Derivative risk: The Fund uses derivatives as part of its investment strategy. Compared to a fund which only invests in traditional instruments such as stocks and bonds, derivatives are potentially subject to a higher level of risk.

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

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WHAT IS HAPPENING WITH UK EARNINGS FORECASTS?

With little guidance from companies, forecasts for UK earnings as a whole still look too optimistic

Financial analysts often come in for criticism for 'herding' together when compiling their earnings forecasts, but when companies themselves have no idea where earnings are going to be a year from now it may be time to cut them some slack.

What we know from multiple previous business cycles is that corporate margins tend to mean-revert over time. When margins are high – and they have been high for some time, as have equity valuations – typically they are eaten away by new entrants or new technology.

In this case a sudden shock to both supply and demand as countries around the world go into 'lockdown' is leading to lower implied margins and hence lower equity valuations.

LACK OF VISIBILITY

Many companies have seen at least a small negative impact to their first quarter earnings: it is almost certain the impact will be much larger in the second quarter.

Analysts in the US have been rushing to downgrade their earnings forecasts, with investment bank UBS admitting that the mobility restrictions being imposed around the world 'are rapidly moving us towards our worst-case "severe pandemic" scenario – likely exceeding it'.

Yet with many UK companies cancelling their forecasts and offering no up-to-date information on how the virus is impacting their business, it seems as though analysts are as much in the dark as the rest of us.

When **Marks & Spencer (MKS)** withdrew guidance for the new financial year altogether last week, analyst Clive Black at Shore Capital was left with no choice but to temporarily suspend his forecasts.

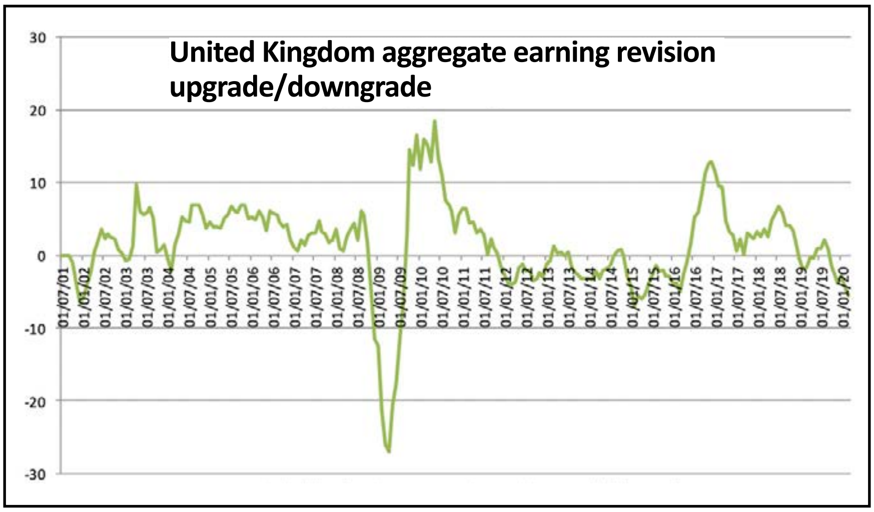
'We could make an estimate but the reliability of such forecasts is subject to considerable doubt because the company is little wiser than we at this point; if it is facing a lack of visibility, what hope us?'

MORE DOWNGRADES TO COME

According to Michael Ellis of M23 Research, using figures from FactSet the aggregate of downgrades to all UK earnings forecasts over the last month is just 2%, weighted for the market size of each stock.

This compares with downgrades of 4% three

United Kingdom aggregate earning revision upgrade/downgrade



Source: M23 Research Limited

Biggest UK earnings downgrades for 2020

Company	Sector	% EPS downgrade	One-month performance %
BP	Oil & Gas	-32.4	-49.3
Signature Aviation	Transport	-26.1	-50.5
Euromoney Institutional Investor	Business Services	-21.0	-38.0
Capita	Business Services	-20.9	-71.2
John Laing	Construction & Engineering	-19.4	-15.5
Informa	Media & Publishing	-18.4	-51.6
Easyjet	Travel & Leisure	-16.0	-67.2
WH Smith	Specialty Retail	-15.6	-69.3
Intl Consolidated Airlines	Travel & Leisure	-14.2	-66.5
Civitas Social Housing	Residential & Commercial REITs	-13.7	-15.2
Glencore	Coal	-12.6	-45.5
Hammerson	Residential & Commercial REITs	-12.5	-54.0
Quilter	Investment Banking & Services	-12.3	-40.1
Standard Chartered	Banking	-12.2	-28.7
Burberry	Specialty Retail	-12.2	-45.0
Cineworld	Travel & Leisure	-11.2	-70.1
Royal Bank Of Scotland	Banking	-11.2	-38.9

% downgrade represents the change to current-year earnings forecasts in the last month
Source: Stockopedia, *Shares*, data correct as of 19 March

months ago and 7.6% six months ago, before coronavirus was even an issue, and suggests that analysts are way behind the curve.

In previous crises, the pace of earnings downgrades has been much faster than it is at present. 'It seems to me that analysts have barely started to downgrade their numbers, presumably waiting for more clarity from the companies themselves' adds Ellis.

At a company-specific level, according to our screening of Stockopedia, the biggest earnings downgrades are in oil giant **BP (BP.)**, airline services firm **Signature (SIG)** – formerly known as BBA Aviation – and publishing group **Euromoney (ERM)**.

Meanwhile, the biggest single-stock earnings upgrades for this year are in Jet2 holiday operator **Dart Group (DTG:AIM)**, online trading firm **Plus500 (PLUS)** and gold miner **Centamin (CEY)**.

MEANINGFUL DIVERGENCE

Looking down the two tables, what strikes us is not how different most of the stocks and sectors are but how *similar* they are.

Business services, construction, investment banking and services, travel and leisure stocks, specialty retailers and even real estate investment trusts feature on both lists.

For stocks such as Plus500 and **IG Group (IGG)**, the melt-down in markets and the subsequent rise in volatility has been hugely helpful, but both firms admit it is unlikely to continue, meaning analysts and investors may both be taking too rosy a view.

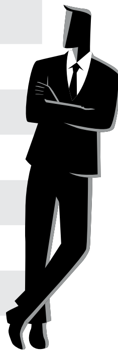
On the other hand the 80% hammering which Dart Group has received and the 60%-plus beating handed out to **M&G (MNG)** and **Trainline (TRN)** look like situations where the market is clearly ahead of the analysts give they had actually been *raising* their 2020 earnings estimates for all three firms.

U-SHAPED RECOVERY

Given that company margins mean-revert – along with earnings revisions and valuations – we know that when profits are low, weaker competitors tend to fall by the wayside, easing competition and allowing stronger companies to increase their margins.

Biggest UK earnings upgrades for 2020

Company	Sector	% EPS upgrade	One month performance (%)
Dart	Travel & Leisure	12.1	-80.4
Plus500	Investment Banking & Services	9.2	-9.8
Centamin	Metals & Mining	9.0	-29.3
Polymetal International	Metals & Mining	7.1	-13.7
Phoenix Group	Insurance	6.3	-36.3
Hikma Pharmaceuticals	Pharmaceuticals	4.9	-5.8
Team17	Software & IT Services	4.6	-19.1
Domino's Pizza	Travel & Leisure	4.3	-11.5
M&G	Investment Banking & Services	3.7	-62.0
Drax	Electric Utilities	3.3	-47.5
Unilever	Personal & Household Products	3.0	-11.4
Trainline	Travel & Leisure	2.8	-62.0
Boohoo	Specialty Retail	2.7	-51.3
IG Group	Investment Banking & Services	2.4	-10.9
Morgan Sindall	Construction & Engineering	2.1	-32.6
Bunzl	Business Services	2.0	-34.0
Ti Fluid Systems	Automobiles & Auto Parts	1.9	-47.9



% upgrade represents the change to current-year earnings forecasts in the last month
Source: Stockopedia, *Shares*, data correct as of 19 March

At some point the virus-led contraction will ease and profits will recover, but forecasting when that will happen is nigh-on impossible. What is becoming clear though is that notions of a 'V-shaped recovery', for Europe and the US at least, are too optimistic. With luck, the recovery may be U-shaped.

The big question on investors' minds – at least those who are already looking through the sell-off to the point where markets stabilise and they can start buying stocks again – is will the same stocks and sectors which led the market before the coronavirus crisis continue to lead afterwards, or will there be some new kind of leadership?

LOOKING FOR WINNERS

As David Jane, multi asset fund manager at **Premier Miton (PMI)** puts it, 'Bear markets often lead to a change of market regime, with different regions and industries fuelling the next phase of economic growth. As we look to position portfolios for the recovery, we need to be alert to the possibility that the next bull market might look very different from the last.'

Trevor Green, head of UK equities at Aviva Investors, is mulling the same question. 'The debate is, when this virus passes, do we go back to the old momentum with big US technology stocks outperforming or are there new market leaders? Some companies will see an immediate bounce back, for others it will be much slower.'

With reference to the UK, he points out that 'housing market supply and demand is still favourable for the home-builders, but the question is, can volumes recover in September/October or is that too soon?'

Simon Gergel, head of UK equities at Allianz Global Investors, cautions that 'even strong businesses will be affected by COVID -19, and those with weak balance sheets may not survive in their current form.

'We are assessing the direct and indirect impacts of this pandemic on every business in the portfolio, and that has led us to make a number of changes.'

Among the changes, he notes, 'we have not simply added defensive positions and sold cyclicals. We have also added to more cyclical companies where we are confident in the long term value, and share prices are particularly attractive'.

CUT PRICE

STOCKS & FUNDS FOR YOUR ISA

By the *Shares* team

Investing is about putting your money to work in the markets over a long period. So while markets are presently experiencing large share price movements up and down, it is important to look beyond the current volatility and continue to feed money into your investment account.

As well as remaining invested through periods of volatility the looming end of the tax year provides an opportunity to make use of any of your remaining annual ISA allowance, should you have the means to do so.

If you do, you will be adding to your portfolio at a time when markets are close to their lowest levels in more than a decade. You would be getting considerably more shares or fund units compared to the same amount of money one year ago.

We believe the indiscriminate selling has created an opportunity to buy some excellent companies and funds at attractive prices. The *Shares* team has identified six of our best ideas to help fill your ISA before the end of the tax year on 5 April.

Given the scale of the economic hit from measures taken to contain the virus, we accept it may not be smooth sailing for all of these selections in the short-term. We also cannot rule out the possibility you might soon be able to buy at even lower prices, but we think over time our picks are well placed to trade materially higher than they do today.

They are therefore well suited to people making use of a standard Stocks & Shares ISA (£20,000 allowance) or a Junior ISA (£4,368 allowance this tax year, rising to £9,000 from next tax year) to invest for long term.

They are less suitable for someone using a Liifetime ISA to save for a deposit on a house in the next one to three years or indeed anyone who might need to access their cash in the near future. We discussed the different ISA products in this in-depth article.

While the world, economy and markets will recover from coronavirus we do think there could be changes in the way we interact with each other and the way businesses operate. We have tried to factor these potential changes into our picks.

For the individual companies we have also taken a close look at their balance sheets to ensure they are well placed to withstand any near-term strain on their finances.

OUR ISA PICKS

Alliance Trust (ATST) 572.6p

BUY

This investment trust provides access to top-notch fund managers via a single product. Investors benefit from accessing the skills of many different experts, meaning they not only spread risks around approximately 200 different companies in the portfolio but they also aren't reliant on a single manager.

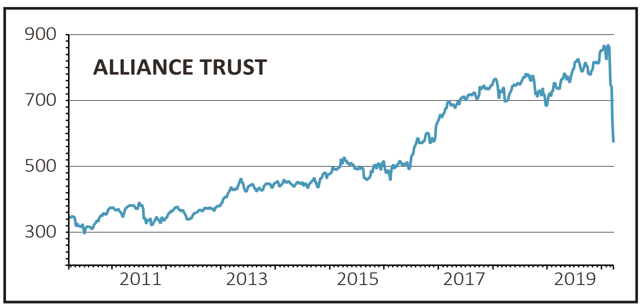
Alliance Trust (ATST) is run by a panel of nine asset managers, each of whom have one or more fund managers picking 10 to 20 stocks to go into the trust's portfolio. The panel is chosen by investment management group Willis Towers Watson (WTW) and the choice of managers is reviewed on an ongoing basis.

The portfolio features a range of sectors including tech, healthcare and financials. The shares are currently trading on a 17% discount to net asset value, compared to a 12-month average of 5.9%.

The trust's charges are relatively low at 0.64% and it has 53 years of consecutive dividend growth. It declared 13.96p in dividends for the 2019 financial year, equal to a 2.6% yield on the current price.

The aim is to outperform a basket of 3,000 global stocks – as measured by the MSCI All Country World index – by 2% a year over rolling three-year periods. In 2019, it achieved 23.1% total return on a net asset value basis versus 21.7% for its benchmark.

The panel of managers have different styles,



providing investors with further diversification. For example, panel member SGA seeks global businesses with strong pricing power, recurring revenue and plenty of growth opportunities.

In contrast, panel member Vulcan Value looks for high quality businesses that have the ability to compound in value over the long term, and only buys when the share price is discounted. A good example is Google's parent company Alphabet whose shares temporarily sold off last year.

'Vulcan looks for growth companies it would be comfortable owning for the next 10 years, yet only buys the shares when they are trading below intrinsic value. Such opportunities may only happen when you get sell-offs across the market,' says Craig Baker, global chief investment officer of WTW. 'That's why some of the managers on Alliance Trust are currently seeing opportunities caused by coronavirus market disruption.'

Interestingly, WTW will allocate a greater portion of the Alliance Trust pot to managers who are underperforming because their style might be out of favour, rather than giving more to ones doing really well. But if they are just picking the wrong stocks, they'll be shown the door.

Hilton Food (HFG) 945p

BUY

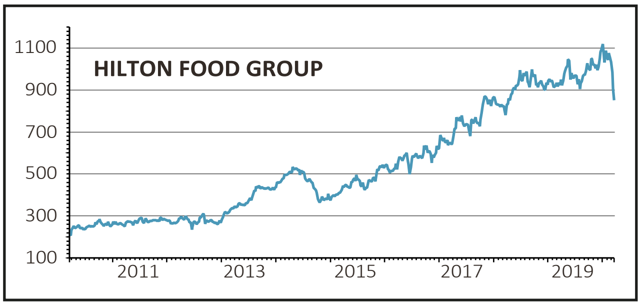
Investors seeking a resilient, cash generative and progressive dividend-paying ISA selection should consider **Hilton Food (HFG)**, a global food packing business whose robust balance sheet should help it navigate the coronavirus crisis.

Floated in 2007 at 150p, Hilton Food forged its reputation by packaging up red meat for retailers including **Tesco (TSCO**), Ahold in Europe and Woolworths in Australia, from state-of-the-art plants using automation and robotics.

Growing volumes with supermarkets around the world, Hilton Food is a company to own for the long term as it exports a proven, cash generative business model to additional territories with existing and new retail customers. Supplier consolidation in the industry favours scale operators such as Hilton, able to produce private label packed meats cost effectively while meeting high traceability standards.

Furthermore, the need for supermarkets to keep their shelves stacked during recent bouts of pandemic-induced panic buying may well have given volumes a boost. Hilton Food is certainly moving with the times, tapping into consumers' appetite for healthier eating options by diversifying into high-growth proteins.

The £81m, 2017 acquisition of fish processor Seachill provided an entry into the growing fish protein category – Seachill enjoyed a full year of Tesco shellfish business in 2019 as well as increased level of breaded products to Waitrose last year – and is also benefiting from the booming trade in vegetarian and vegan products made by its vegetarian and vegan business Dalco.



Holland's leading vegetarian product maker, Dalco has secured listings with a number of Hilton's retail customers, although one risk to weigh is whether the vegan movement ultimately results in a drop in meat-related business and whether there is enough plant-based activity to pick up the slack.

Hilton's results for the year ended 29 December are due on 26 March and will confirm a continuation of the strong year-on-year sales and volume growth driven primarily by Hilton's operations in Australia, not to mention growth in a number of existing and new markets. However the market's focus will be on the impact of the coronavirus crisis on this well-capitalised business.

Before the escalation of the pandemic, Shore Capital's 2019 forecasts called for pre-tax profit of £47.4m and earnings per share of 43.3p in a year of consolidation for Hilton. The broker was expecting a return to double-digit growth in 2020, calling for pre-tax profit of £54m and EPS of 49.1p, although those forecasts look optimistic in light of current events.

Smith & Nephew (SN.) £12.60

BUY

Shares in hip and knee medical devices maker **Smith & Nephew (SN.)** have slumped 45% since reporting market beating full-year 2019 revenues and profits on 20 February.

Chief executive Roland Diggelmann highlighted an improving trend in underlying revenue growth (4.4%), the best for several years as group sales topped $5bn for the first time.

In addition, analysts have since continued to nudge-up their earnings expectations for 2020. This means that the stock's price to earnings (PE) ratio has dropped to the lowest level in a decade.

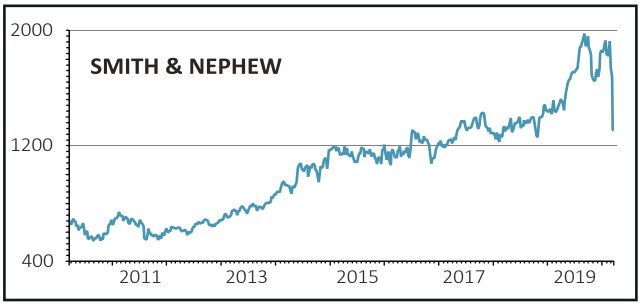
To illustrate, the price-to-earnings ratio today is just 12 times compared with 22 times on 20 February.

We believe that the fall in the share price is the result of panic selling of all UK shares as investors react to growing economic risks as a result of the coronavirus pandemic.

This has created a great opportunity for long-term investors to pick-up a quality share on the cheap.

The company operates three global franchises in growing markets with defendable positions. The business achieves consistently high operating margins and returns on equity, which provides it with the financial muscle to invest in organic growth as well as acquisitions in faster growth segments.

Five acquisitions were made in 2019, the largest of which was the $660m purchase of Osiris Therapeutics while so far this year Tusker Medical has been added to the stable of niche, high growth businesses.



One of the more interesting growth areas is in the so called active healing or bioactive market, thought to be growing at 10% a year and worth $1bn in revenues.

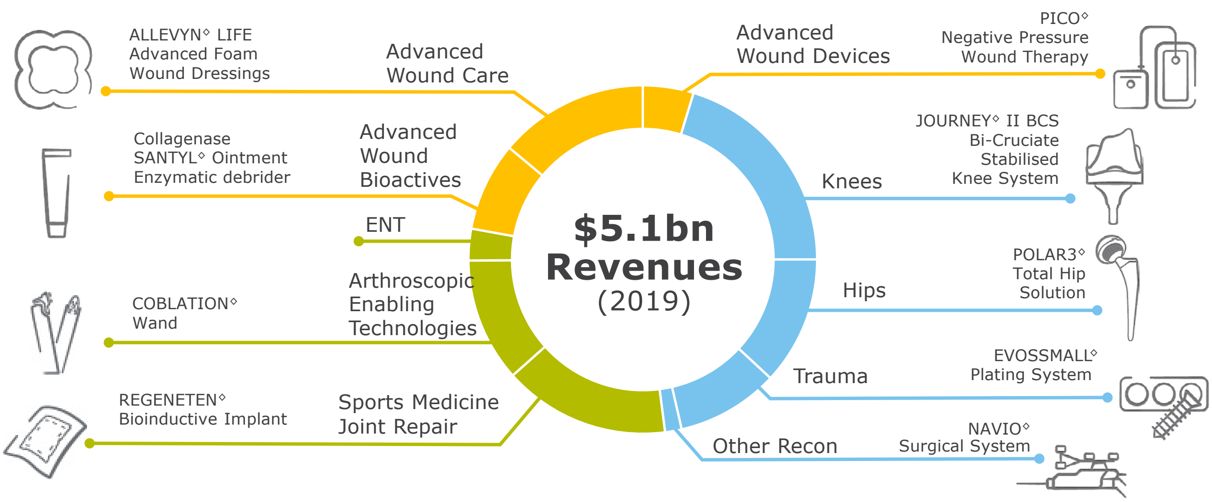
Wound bioactive materials have intrinsic healing properties that release antibodies, plant extracts or insulin, which aid the healing process.

Smith & Nephew's business has a fair degree of operating leverage, which means that even single digit revenue growth translates into double-digit profit increases as more revenue drops turns into profits.

There are few businesses unaffected by the economic damage being unleashed from by the coronavirus pandemic. Smith & Nephew has a globally diversified business and strong market positions, which give it resilience in time of economic stress.

The long-term demand drivers for Smith & Nephew's products remain firmly in place, though delays to elective surgeries as hospitals focus on tackling coronavirus is a potential short-term headwind.

Obesity is on the rise across the globe, which is a major risk factor for contracting diseases such as diabetes and joint related problems.



Smithson Investment Trust (SSON) £10.44

BUY

It says a lot about the indiscriminate nature of the recent sell-off that shares in **Smithson (SSON)** were down around a third in less than a month.

Smithson – the name stands for Small & Mid Cap Investments That Have Superior Operating Numbers – is the brainchild of Terry Smith, founder of the **Fundsmith Equity Fund (B41YBW7)**, and as such it shares the same 'quality' bias.

Its aim is to provide a superior risk-adjusted return over the long term by investing in companies with market capitalisations between £500m and £15bn, by following the same strategy as Fundsmith: buy good companies, don't overpay, and do nothing.

While we constantly advocate that investors make use of 'time in the market' rather than trying to 'time the market', we realise that many investors – including professionals – do not have the luxury of being able to take a long-term view of five or ten years.

Most professional investors for example are measured on a monthly or quarterly basis, and as the fund management industry moves increasingly towards gathering assets rather than managing assets their short-term performance is increasingly scrutinised.

Smithson, as its fact sheet says, only invests in companies 'which we can own for the long term, which we believe will continue to compound in value over many years and will therefore become worth significantly more.'

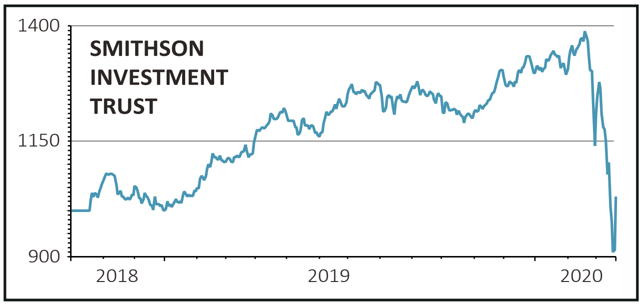
Investors should note that the trust doesn't pay a dividend as its 'primary objective is to provide shareholder returns through long-term capital appreciation rather than income'.

The managers look for companies which generate substantial cash flows and can sustain a high return on operating capital employed (ROCE) rather than growth in earnings per share (EPS).

If a company can reinvest some of its cash flow back into the business and continue to generate a high return on capital, its cash flows will compound over time, increasing the intrinsic value of the business.

Sources of sustainable high returns include 'intangible assets' such as dominant market shares, strong brands, patents, customer relationships, distribution networks and large installed bases of equipment or software which provide a captive market for services, spares and upgrades.

Performance in 2019 was strong, with the shares gaining 29.8% and net asset value (NAV) gaining 33.2%, but in February the shares gave back almost 12% and this month's sell-off has brought them down to even more attractive levels and a discount to NAV.



Smithson says it invest in companies 'which we can own for the long term,which we believe will continue to compound in value over many years and will therefore become worth significantly more'

SMITHSON TOP 10 HOLDINGS AS OF 28 FEB 2020

Company	Sector	Country
Verisk	IT Services	USA
Rightmove	Internet Services	UK
Equifax	Business Services	USA
Masimo	Medical Equipment	USA
Check Point	Software	USA
Ansys	Software	USA
Ambu	Medical Equipment	Denmark
Recordati	Pharmaceuticals	Italy
IPG Photonics	Electronic Equipment	USA
Domino's Pizza Group	Restaurants	UK

Source: Smithson

SSE (SSE) £11.34

BUY

Utility companies have always been in favour with investors in times of stress as their boring, stable nature makes them particularly appealing when the rest of the market is in turmoil.

Known as 'bond proxies' because they have a reliable earnings stream, predictable cash flow and like bonds have reliable income through decent dividends, utilities are generally considered safe investments.

Indeed during this economic crisis due to the coronavirus pandemic, the government has moved to protect the revenues of utility firms even if customer bills are temporarily scrapped.

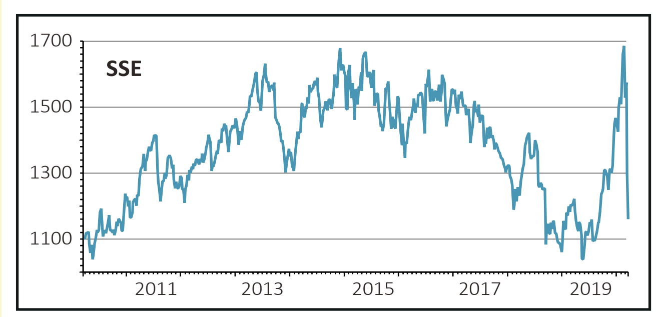
The pick of the bunch in the sector in our view is **SSE (SSE)**, which has the best growth prospects and is also a 'greener' investment than its competitors with its focus on renewable energy.

It is already the UK's leading renewable generator with nearly 7,000 gigawatt-hours of production, with renewable power accounting for 34% of the company's electricity output in the nine months to 31 December.

SSE has committed to trebling its renewables output by the end of this decade, including more than doubling its UK wind capacity by 2025.

Writing back in February, analysts at Jefferies conservatively estimated a 200p per share value creation from this pipeline.

Looking long-term they also foresee a re-rating of SSE shares coming from the sale of its gas production assets, reportedly worth around $1bn, and offshore wind farm-downs, which will also give it better visibility on cash flows.



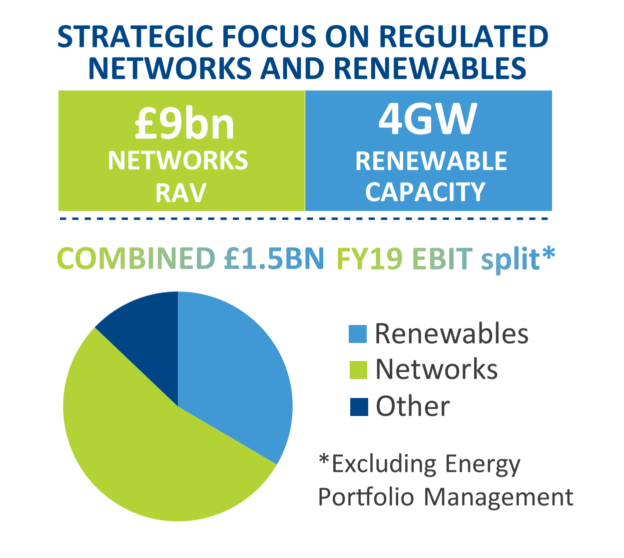
A farm-down model is where a company sells a stake in a project to outside investors before construction, in order to free up its own money for further projects.

Compared to its rivals, SSE ranks better on most quality metrics with the best return on capital in its sector of 13.4% and return on equity of 34.4%, according to Stockopedia. It also has one of the best operating margins at 30.5%.

Dividends are one of the main benefits of investing in utilities, particularly at a time when many companies are cutting theirs, and SSE has been one of the most solid payers over the last 30 years.

It is worth pointing out SSE's dividend cover is less than ideal at 1.07x (anything above 2x is considered safe), but this is not unusual in the utilities sector given the relatively stable and predictable revenue streams.

Even if SSE did cut its dividend, investors might accept this if the company can make a good enough case regarding its investment in renewables for future growth.



Unilever (ULVR) £38.91

BUY

While organic growth has been harder to come by in recent periods for Marmite, Magnum and PG Tips maker **Unilever (ULVR)**, we consider a coronavirus-driven share price dip to be an attractive buying opportunity at this consumer goods giant.

Now guided by CEO Alan Jope, successor to Paul Polman, Unilever's fourth quarter sales growth slowed to 1.5%, albeit a smidgeon ahead of expectations after a pre-Christmas profit warning.

The Dove soap-to-Ben & Jerry's ice cream maker, which has announced a strategic review of its global tea business encompassing brands like Lipton and PG Tips, left its 2020 outlook unchanged at the full year results in January, guiding to underlying sales growth towards the lower end of the targeted 3% to 5% range. This relies on a recovery that won't be forthcoming as the world is plunged into recession by the coronavirus.

Near-term, there will be challenges ahead for Unilever, although the threat posed by challenger brands might be blunted somewhat as the businesses behind them may not prove as durable and their distribution is unlikely to be as robust as Unilever's.

The Anglo-Dutch consumer goods giant does have debt but at a manageable level.

Unilever has an enviable portfolio of foods and refreshment, personal care and home care brands, many of which people will need in this crisis. Unilever has pricing power and crucially,

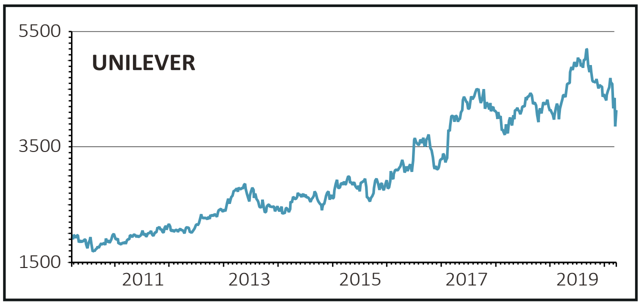
'Unilever has an enviable portfolio of foods and refreshment, personal care and home care brands, many of which people will need in this crisis'

the strong free cash flow to see it through the crisis and hopefully sustain the dividend.

Unilever's return on invested capital for fiscal 2019 was 19.2%, up from 18.1% in the prior year and demonstrating the quality of a business able to drive operating profit growth.

Unilever's footprint in developing and emerging markets is another bull point for investors with a long-term horizon and there are self-help levers Unilever can pull.

As Jope explained in January, Unilever is 'stepping up execution against our fundamental drivers of growth', seeking to increase penetration by improving brand awareness and availability, improve its performance in faster growing channels and fuel growth through cost savings.



Kepler Trust Intelligence

Beware the risk: the other side of investing

INVESTMENT IS A two-sided coin – on one side you have return, the potential to see your money grow alongside the companies and economies it is invested in. On the other side is risk, or the potential to see your capital shrink as a result of investing decisions.

While performance tends to capture the most headlines, risk should command our attention too. In fact, professional investors are so concerned by risk that they have developed multiple strategies to manage it – and it makes sense that paying attention to how much you might lose from an investment can be as important as how much you may gain.

Keeping risk management at the core

There is a plethora of risk management strategies available to fund managers, with risk management being of varying priority to different funds.

For **Alliance Trust**, risk management is a central tenet of the investing process. In fact, the trust explicitly seeks to produce real, long-term returns for its investors. It is not aiming to shoot the lights out – but instead to outperform its benchmark by 2% per year after costs over rolling three-year periods.

Multiple layers of investor protection are embedded in the trust. Crucially, the trust takes no strong view on regions, sectors or investment styles, keeping its exposure to these as neutral as possible – which, should fundamentally limit the portfolio's risk.

In 2017, Alliance Trust appointed global financial services behemoth Willis Towers Watson to manage its investments. WTW operates as an advisor to pension funds and other large institutional investors around the world – which means it has a rich seam of experience and resources when it comes to managing investment risk.

The right tools for the job

While the fund's neutrality is an important aspect of how it limits its risk exposure, the unique resources of WTW and the structure of the trust's investments mean that multiple layers of investor protection are applied to it.

WTW runs a multi-manager portfolio for Alliance Trust, made out of exclusive mandates of 'best picks' selected by the best managers WTW can find. On a basic level, this means Alliance Trust investors are not exposed to key man risk, where a single manager's fallibilities, illness or departure could impact their returns to an outsize degree.

A risk management culture

A final, crucial factor in Alliance Trust's risk management is its status as an investment trust. This means that an independent board oversees the trust to ensure it doesn't take on too much risk – and to make changes to manage this where necessary.

This benefit has been exemplified by the board of Alliance Trust in recent years. In 2017, the board completely overhauled the management structure of the trust as discussed here, after the trust's investments had become increasingly complicated over several years and performance had also slipped.

Since taking this decisive action, the trust has returned to normal service, delivering total shareholder returns of 33.8% over the last three years, against a MSCI ACWI total return of 30.6%. With the trust targeting an OCR of 0.65%, future performance should not come at excruciating cost either.

Click here to find out more on how **Alliance Trust** manages risk.

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RUSS MOULD
AJ Bell Investment Director

Will gold shine again (just like it did after 2008?)

The precious metal has struggled to live up to its safe haven credentials

One of the most confusing features of the current market rout has been gold's failure to confirm its status as a haven asset during times of trouble.

At the time of writing the precious metal is up by barely 1% since the start of the year and is down by 8% from the year high reached on 24 February when investors first began to sense that the full implications of the COVID-19 outbreak were much more serious than initially thought.

One common theory to explain gold's slump is that investors are looking to meet redemptions or margin calls and the precious metal is a logical port of call, especially as many investors will have a profit to take and the gold market is relatively liquid.

This makes sense, especially as the same happened to gold when all hell broke loose in the financial markets in 2008.

GOLD SWOONED AS CRISIS BEGAN IN 2008 BUT SURGED AS IT (AND POLICY RESPONSE) REACHED A CRESCENDO

Source: Refinitiv data

BACK TO THE FUTURE

As the recession deepened and stock markets tumbled, gold was dragged down as professional and private investors alike had to meet margin calls, settle fund redemptions or simply rustle up ready cash. Gold had surged from its 2001 lows in the $250-to-$260-an-ounce range to $1,012 by March 2008.

But even though the Fed had started to slash interest rates, from 5.25% in August 2007 to 2.25% by March 2008, and the US Government had launched the $152bn Economic Stimulus Act in February 2008, the US economy – and share prices – kept tanking, as the S&P hit 1,273 on 10 March 2008, 19% down from its October 2007 high.

As US equities flirted with a bear market, gold looked like a rich source of cash, especially as there were still profits to be taken.

Gold fell 15% to $856 by mid-May 2008, rallied but then slumped to $777 on the day of Lehman Brothers' bankruptcy in September 2008 and only bottomed at $718 in November of that year.

By this time, then treasury secretary Hank Paulson had launched the $700bn Troubled Asset Relief Program (TARP), the Fed had launched its first round of quantitative easing in November 2008 and US interest rates were heading to 0.25%.

The newly-established Obama administration then signed the $787bn American Recovery and Reinvestment Act into law in February 2009 and the combination of huge monetary stimulus and huge fiscal stimulus gave gold an equally huge boost. Investors sought a haven as the authorities fought to take control of events, whatever the cost.

RUSS MOULD
AJ Bell Investment Director

UNCANNY PARALLELS

All investors know that history offers no guarantees for the future but gold's price slump and the progressive increase in the (intended) power of central banks' and governments' response to the ongoing crisis both bear uncanny resemblances to 2008 – especially as the US Federal Reserve has just gone all in, declaring on Monday (23 Mar) that it would scrap the $700bn cap on its fourth round of quantitative easing and just keep going until it had to.

In the seven days to 20 March, *the Fed's balance sheet grew by $510bn, or 12%*, a rate of increase only seen in autumn 2008 when it first launched QE in the wake of Lehman Brothers' collapse.

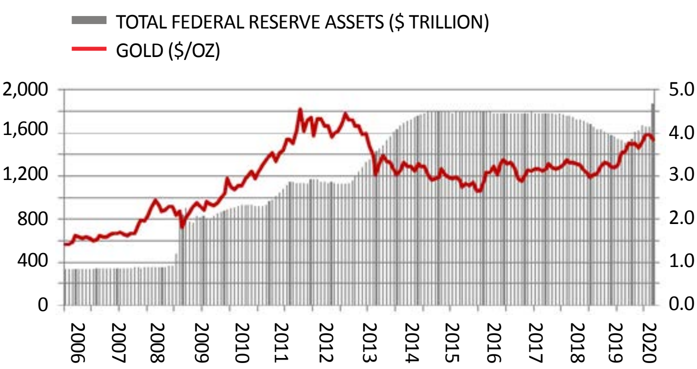
The Fed's move to QE-Infinity did lift gold on 23 March and the more its balance sheet expands, the more excited gold bugs may get, especially as the policy responses of the UK, Germany and others also involve increased fiscal deficits (albeit quite understandably given the extraordinary circumstances).

DIGGING A HOLE

If QE and fiscal stimulus, of various shapes and forms, prove to be enough to support the global economy, gold may stay out of favour and, ironically, remain a source of ready cash as financial markets stay unsettled.

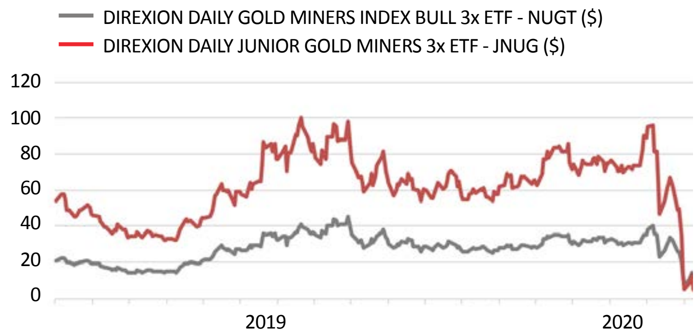
But if more unorthodox policy is needed, and more 'money' is conjured out of thin air via negative interest rates, QE, helicopter money or increased government deficits, investors could yet return to the precious metal, just as they did from late 2008 to summer 2011, when gold peaked at almost $1,900 an ounce.

A BALLOONING FED BALANCE SHEET DROVE DEMAND FOR GOLD AFTER THE FINANCIAL CRISIS



Source: Refinitiv data, FRED – St. Louis Federal Reserve database

THE US HAS SEEN A ROUT IN LEVERAGED GOLD MINING ETFS



Source: Refinitiv data, FRED – St. Louis Federal Reserve database

That also begs a question about gold miners. Gold has been weak but gold miners have really suffered. There are some suggestions that this is a knock-on effect from investors fleeing a pair of three-times-leveraged exchange-traded funds (ETFs) in the US, tracker products which offer triple the price movement of the underlying basket of assets.

This selling has in turn, it is argued, forced the product providers to liquidate holdings of the underlying shares. If this is the case, such panic can be a contrarian buy signal – but frankly everyone will be hoping that coronavirus can be contained (and then eradicated) quickly and the global economy can rebound, so gold's perceived defensive qualities will not be required.

But that still supposes that central banks and governments withdraw the monetary and fiscal stimulus once the viral crisis passes. And looking at how central banks have kept policy loose for 11 years and are still loosening it now, that is by no means a certainty.

PLANNING FOR YOUR ISA? GO THE WHOLE 'HOG

From Roman times onwards, hedgehogs have held a special place in our culture. Back then, Pliny the Elder, a renowned philosopher of that day, wrote about hedgehogs carrying apples on their spines, to sustain them through the winter months. Folk tales also cast hedgehogs in an idealised light. But these romanticised images bely their resilience and self-preservation. When a predator approaches, the hedgehog presents its spines (more than 5000 of them!), making a formidable shield.

Somewhat similar to this clever creature, investors also think about self-preservation – in order to achieve one's financial goals, and to ensure enough is put aside for the long-term. This ISA season, you might be considering something different to the most popular but often overcrowded themes of the stockmarket – so here's a round-up of our contrarian investment approach.

Built for long-term investing

The Scottish has a history of long-term investing. It boasts over 130 years as an established investment vehicle and importantly, as an independent trust, it is not constricted by short-term performance considerations.

Thinking differently

The Trust's contrarian approach is built on conviction, a search for out of favour but quality investments and an awareness of investors' behavioural traits. It is never just a case of rounding up the most unloved stocks. There have to be inherent strengths as well as potential catalysts for sentiment and share prices to recover.

A Dividend Hero

Over time, dividends make up a substantial portion of total returns. The Scottish has 36 consecutive years of increased regular dividends and currently one of the highest dividend yields in its peer group. The compounding effect of these dividends, when reinvested into the fund, is material and boosts returns over time. The Trust has been listed as a 'Dividend Hero' by the Association of Investment Companies. It should be remembered, however, that dividends are not guaranteed and income can fall as well as rise.

> "This ISA season, you might be considering something different to the most popular but often overcrowded themes of the stockmarket"

Low costs

The Scottish's ongoing charges figure (OCF) is low relative to its peer group, an important consideration given the drag that high fees can have on overall returns.

ISA: a tax-efficient way to invest

The current ISA proposition stands out as relatively attractive. The vehicle offers generous tax benefits – when you invest in an ISA you pay no further tax on any income earned or on any gains when you sell your investment. Up to £20,000 can be invested in an ISA for the current tax year which ends on 5 April. ISAs are an attractive vehicle for building a substantial fund to potentially finance school fees or a deposit for a flat. Though remember that the value of any tax benefits depends on your individual circumstances and tax rules may change in the future. ■

20 March 2020

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Just what is an emerging market?

We look at the MSCI classification and what it means


Greece was classed as an emerging market again in 2013

First used in the 1980s, the term 'emerging markets' refers to countries which are seen as being in the transition from a developing to a developed economy. Among the largest and most well-established are Brazil, Russia, India and China.

The nature of the populations of emerging market countries or their 'demographics' can create some advantages over so-called developed economies in the UK, US and Europe which are struggling to contend with increased numbers of older people and a shrinking working age population.

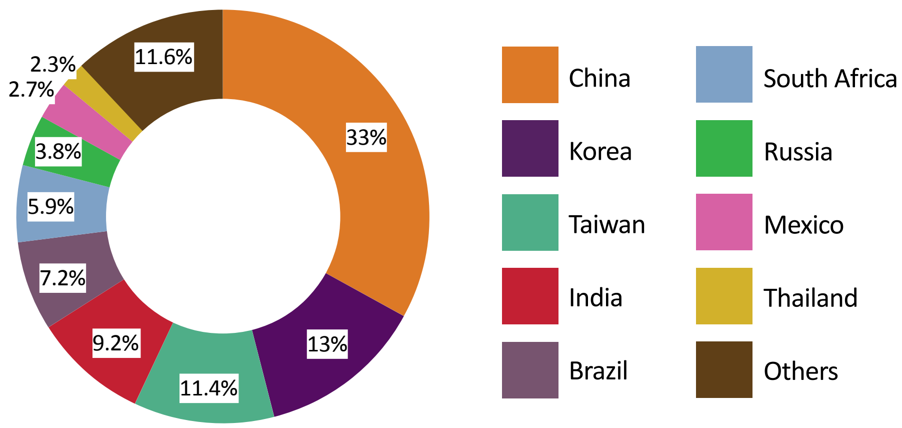
MSCI is among the most widely followed index providers for emerging markets. The MSCI Emerging Markets index consists of 24 countries. The other key categories which MSCI uses (in common with its peers) are Developed Markets and Frontier Markets. MSCI examines each country's economic development, size, liquidity and market accessibility in order to place it in a given investment universe.

Developed markets have high levels of GDP per capita as well as transparent and capital markets which are open to foreign ownership. Frontier markets often won't have developed stock markets.

Economies do not move between these classifications all that often, but it does happen. At the end of the 2010s, Saudi Arabia was given emerging markets status by MSCI. Jordan and Morocco were countries which were relegated from the emerging to frontier market grouping earlier in that decade.

The last countries to move from EM to developed market status were Greece in 2001 (although it was subsequently returned to being an emerging market after its debt crisis in 2013) and Israel in 2010.

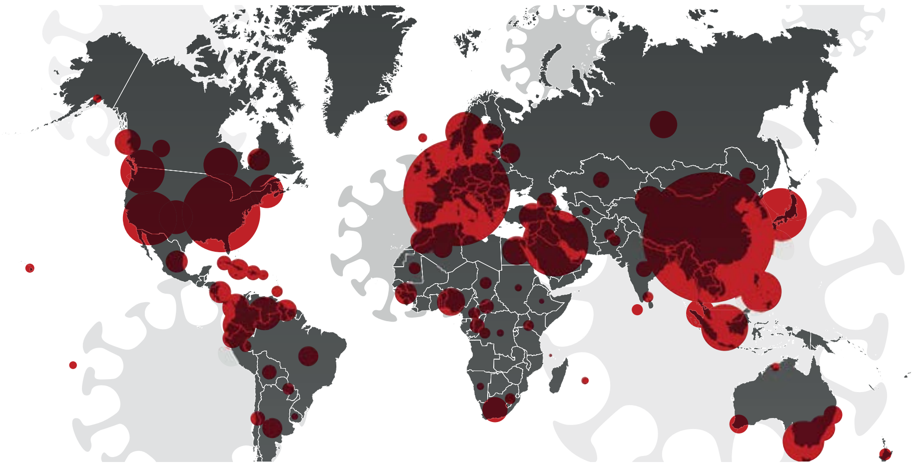
MSCI EMERGING MARKETS – COUNTRY WEIGHTS



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

Emerging Markets: Views from the Experts

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



1. The **Covid-19 coronavirus** led the narrative in February, as a spike in new cases outside of China heightened global uncertainty. Expectations of weaker-than-expected global energy and metals demand growth (especially from China) also led commodity prices to decline in February. Although this will adversely impact net exporters such as Russia, net importers such as India stand to benefit, in our estimation. While first-quarter 2020 economic growth is expected to be severely impacted, we could see growth in the short-term continue to be affected as a resumption in Chinese production, and demand may not necessarily translate into a full recovery in exports.

2. **South Korea** saw a sharp rise in new cases of Covid-19 in February, taking its total (at that point) to the highest globally outside of China. In late February, the Bank of Korea disappointed investors by leaving its benchmark interest rate unchanged at 1.25%, choosing instead to undertake targeted support such as increasing the special lending facility for small companies that were impacted by the outbreak. High household debt levels and real estate inflation remained key concerns. We believe that there is significant pent-up demand, which could lead to a swift recovery once the virus has been contained.

3. **Thailand** was one of the weakest markets in February as Covid-19 and a rise in political uncertainty compounded impact from the country's worst drought in 40 years, along with budget delays. In addition to new investment measures and tax benefits, the government announced plans to introduce an economic stimulus package covering tourism, consumption and investment in the near term. The Bank of Thailand also cut its benchmark interest rate to a record low of 1.0% in February amid efforts to stimulate the domestic economy.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

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

What do property fund suspensions mean for investors?

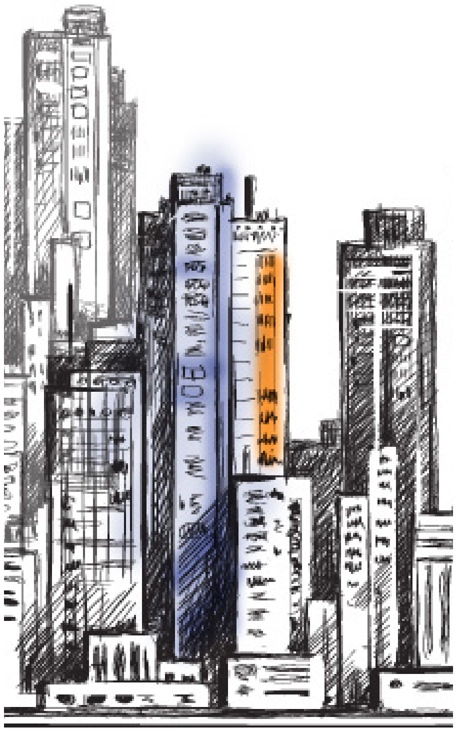
We explain the implications as asset managers respond to market volatility

The market turmoil around coronavirus has hit property funds, but what does that mean for investors?

Over the past week a number of property funds have suspended, which means that investors can't buy or sell the funds. Below we look to answer your pressing questions on the situation.

WHY HAVE FUNDS BEEN SUSPENDED?

Funds that invest in shares listed on a stock exchange have constant updates to the valuation of their holdings – based on the share price rising and falling. But property funds that hold physical properties are harder to value, as there isn't such a liquid market for the underlying assets.



It means that fund managers rely on independent valuers to determine what the properties are worth. This means that an independent company determines how much a property could sell for in the current market conditions, and gives investors confidence that the price is more accurate than the fund manager valuing it themselves.

However, as the current market is so volatile the

THE PROPERTY FUNDS WHICH HAVE BEEN SUSPENDED

Fund	Fund Size	Cash levels	10yr performance (%)
Aberdeen UK Property	£1.05bn	8.25%*	-
Aviva Inv UK Property	£460.7m	19.25%**	31.9
BMO UK Property	£509.9m	27.4%*	-
BMO Property Growth & Income	£433.8m	7%	55.8
Janus Henderson UK Property PAIF	£1.98bn	16.4%*	66.6
Kames Property Income	£585m	11.9%**	-
L&G UK Property	£944.8m	26%*	84.5
M&G Property Portfolio	£2.34bn	4.8%*	39.2
Standard Life Investments UK Real Estate Platform	£1.71bn	17.5%*	47.8
Threadneedle UK Property Authorised Investment Fund	£1.12bn	14.3%*	44.5
Average	-	-	**58.41**

Source: FE. Data accurate to 17 March 2020. *Based on January factsheet. **Based on February factsheet independent valuers have said that they can't accurately determine how much each property is worth. This means that it's much harder to come up with a unit price for the fund, which determines how much your slice of the fund is worth.

Because of this, fund managers have suspended trading in the funds, as they can't accurately give a price for what the units you buy and sell should be worth. This move also helps to protect investors in the fund, as it means people redeeming their money aren't getting a higher value for their assets than those remaining.

HAVEN'T WE SEEN THIS ALL BEFORE?

Yes, property funds suspended just after the Brexit referendum vote in 2016. At this point it was because some investors panicked about the property market being negatively affected by Brexit and that prices would fall, meaning lots tried to sell out of their holdings in property funds.

This means that the property funds ran out of cash and didn't have enough to pay those investors who wanted to withdraw their money. Because property isn't a quick asset to sell (as anyone who has sold a home will know) fund managers had to suspend the funds while they sold assets and built up cash levels to meet investor redemptions.

Investors will also remember the suspension of Neil Woodford's funds last year, which will be very fresh in some memories. But those fund suspensions were for different reasons and so investors shouldn't be unduly concerned that these suspensions will end up the same way.

WHICH FUNDS ARE ACTUALLY CLOSED?

At the moment more than £11bn of investor money is tied up in property funds that have suspended. The affected funds are shown in the table, but the situation is moving quickly and more may have closed.

The **M&G Property Portfolio (B89X8P6)** had already suspended in December last year, and has remained closed since. This closure was down to investor redemptions, and the knock-on effect that had on cash levels, rather than valuation problems. However, if it was still open it's likely it would be facing the same issues as much of the rest of the sector.

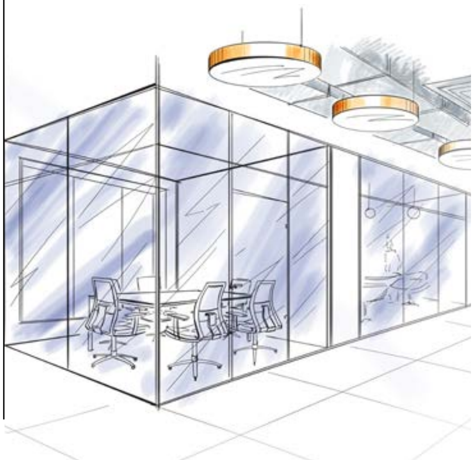
WHAT CAN INVESTORS DO?

When a fund is suspended there is very little investors can do, other than sit tight and wait for their fund manager to update them. The suspension means you can't buy or sell any units of the fund, so you couldn't get your money out even if you wanted to.

The fund managers have to update you ever 28 days on whether the funds will remain closed or re-open, but some fund managers might update you before then.

HOW LONG WILL THE FUNDS BE CLOSED FOR?

Last time the property funds suspended, in 2016, it really varied as to how long they took to re-open. **Aberdeen UK**



PROPERTY FUND CLOSURES AFTER THE 2016 BREXIT REFERENDUM

Fund	How long they took to re-open
M&G Property Portfolio	Closed 5th July. Re-opened 4th November.
Janus Henderson UK Property PAIF	Closed 6th July. Re-opened 30th September.
Aberdeen UK Property	Closed 6th July. Re-opened 13th July.
SLI UK Real Estate Fund	Closed 4th July. Re-opened 17th October.
Threadneedle UK Property	Closed 6th July. Re-opened 26th September.

Source: Morningstar/AJ Bell.

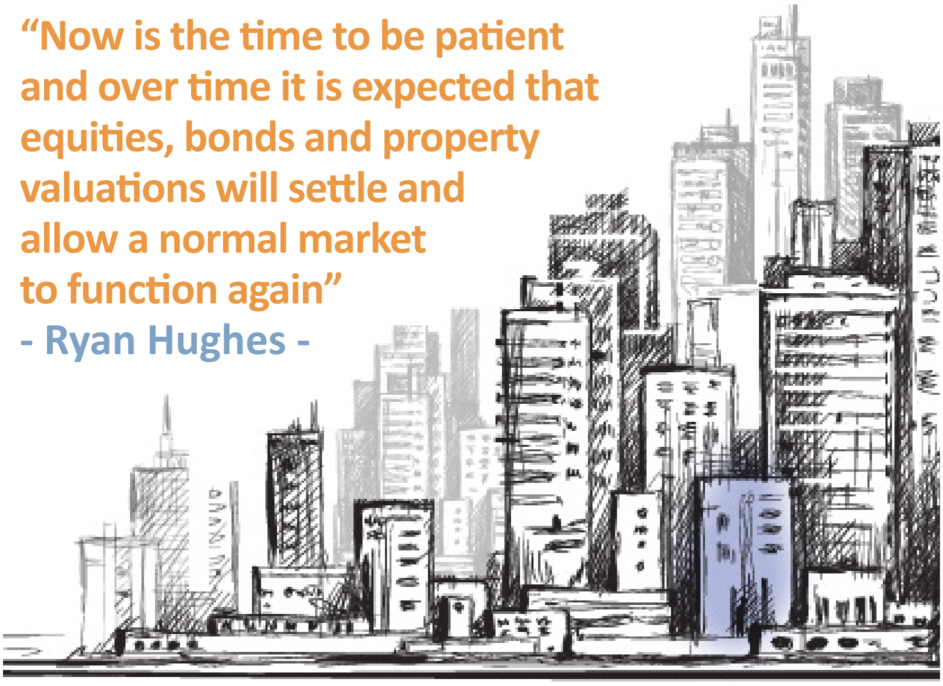
Property (BTLX1D0) re-opened after just seven days, but the M&G Property Portfolio was suspended the longest – for four months.

But remember, those closures were because cash was running out in the fund, so those periods were the time it took for the funds to sell assets and generate cash. This time it's because the markets are moving so quickly it's too hard to accurately value the assets. In theory, once markets are less volatile and have calmed down, the value of the properties will be clearer and funds should be able to re-open.

That said, the suspensions may have spooked some investors who will want to redeem their money when the funds re-open, so fund managers may also be working on shoring up cash levels while the funds are suspended.

Ryan Hughes, head of active portfolios at AJ Bell, comments: 'Now is the time to be patient and over time it is expected that equities, bonds and property valuations will settle and allow a normal market to function again.'

"Now is the time to be patient and over time it is expected that equities, bonds and property valuations will settle and allow a normal market to function again"
- Ryan Hughes -



WHAT'S THE FCA DOING ABOUT THIS?

The regulator, the Financial Conduct Authority, conducted a review into property funds after they suspended last time. Some of that work is still ongoing, but one part of it concluded – looking at how funds should deal with situations like this.

The FCA determined that if fund managers have uncertainty about the value of 20% or more of the fund assets they should suspend the fund. These rules don't actually come into place until September this year, but it appears many funds have already adopted them. At the time, it was warned that the rules would mean funds would suspend more quickly and more often than they had in the past – and we're seeing the first signs of that now.

However, the regulator is still looking at the issues created by holding these big hard-to-sell assets in funds that allow investors to buy and sell daily. Many have urged them to reconsider the structure, and in some cases for funds to only allow investors to trade every week, or every month or even every quarter.

WHAT ABOUT PROPERTY INVESTMENT TRUSTS?

A lot of observers argue that investment trusts are a better vehicle for illiquid assets as the units are listed on the stock market and the fund managers don't have to factor in investor redemptions to how they invest. In times of stress investors may have to accept a discount to get their money out of the trust, but they still would be able to get the cash back.

This move to big discounts is exactly what we've seen happen in recent weeks. For example, **BMO Commercial Property Trust (BCPT)**, a £1.3bn property investment trust, is currently trading at a 65.8% discount, compared to its 12-month average discount of 14.5%. **Regional REIT (RGL)**, another big property trust, is trading at a 46.7% discount compared to its average of 4%.

However, these are discounts to the net asset value calculated by the investment trust managers, and if property funds are struggling to accurately value assets it is very likely that there is some uncertainty about the valuation of property trust underling assets.

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

What to know if an investment trust issues C shares

It could be a red flag as history implies potential market underperformance

A little known share class called conversion, or 'C', shares recently had a moment in the sun when music rights investor **Hipgnosis Songs Fund (SONG)** issued them as a way to raise new cash.

The investment trust, newly promoted to the FTSE 250, raised £231m in a C share issue so it could buy more song catalogues.

It became the latest of in a number of trusts, usually those investing in alternative asset classes other than shares or bonds, to issue C shares as a way of raising money.

C shares aren't always good news as we discuss later. First, it's worth understanding how they work.


The Kaiser Chiefs

WHAT ARE C SHARES?

Investment trusts have a fixed number of shares in issue and are known as closed-ended funds. When someone wants to invest, they buy the shares from another investor – unlike open-ended funds which issue new units to investors, or redeems them if someone wants to get out.

The closed-ended funds structure doesn't stop investment trusts from getting additional money to invest. They simply need to get permission from shareholders to issue new stock, sometimes done via C shares.

The proceeds from issuing C shares are typically held in a separate pool on a temporary basis, with the money invested in whatever assets the investment manager is targeting, e.g. a renewable energy trust buying solar or wind farms.

ADVANTAGE OF C SHARES

According to the Association of Investment Companies (AIC), the advantage of C shares is that existing shareholders don't have to partake in the C share offer if they don't want to, they don't bear any of the issue costs, and they don't have their returns affected while they wait for the proceeds of the C share offer to be invested.

This is because they avoid a cash drag. Often it takes time for the managers to deploy the new money, and during that period all that cash sitting in the portfolio wont generate decent returns, hence the term 'cash drag'.

C shares are initially traded separately from the ordinary shares and the cash is invested in a separate portfolio of investments, so there is no cash drag for the former.

The C shares will convert to ordinary shares when either a predetermined level of investment is achieved or on a predetermined date.

When recently announcing its conversion of C shares into ordinary shares, Hipgnosis Songs Fund calculated a conversion

1 C shares = conversion shares

2 Used by investment trusts to raise cash without affecting holders of ordinary shares

3 Shares convert at a predetermined level of investment or date

ratio at 0.9796 ordinary shares for each C share, meaning shareholders will receive 979 new ordinary shares for every 1,000 C shares held.

HAVE C SHARES GOT A LIMITED LIFE?

While C share portfolios will normally be merged back into the ordinary share portfolio, occasionally this might not happen if the investment manager runs into problems.

This has been the case with **SQN Asset Finance (SQN)**, which has suffered from damaging write-downs on loans to anaerobic digestion plants, and is also chasing around £25m it is owed from US-based solar panel manufacturer Suniva.

About three years ago it raised £134m in a separate pool of money – the C shares – which have no exposure to the troublesome anaerobic digestion investments.

Ordinarily this C share portfolio would've long been converted back into the ordinary SQN portfolio. But Stifel analyst Anthony Stern explains: 'Normally, once a C share fund is fully invested, the C share is converted in ordinary shares based on a ratio based on their value. This did not happen with SQN as some of the major investments in the ordinary share portfolio have run into issues.

'Given the portfolio of the ordinary shares has a number of significant problems such as anaerobic digestion plants and Suniva, no conversion is expected until these are all resolved and by then more issues could have emerged in either portfolio.'

OTHER ISSUES TO CONSIDER

Though it's by no means always the case, it's worth highlighting that quite a few trusts to have issued C shares have run into trouble. Is this just a coincidence or should C shares be a red flag to avoid certain trusts? It's certainly something to consider.

After all, trusts raising new money essentially have money burning a hole in their pocket, itching to be spent. There is a risk they could chase lower quality investments because they are under pressure to invest the cash, and that could result in inferior returns for investors.

CATCo Reinsurance Opportunities (CAT), which looks for income through a portfolio of global catastrophic reinsurance risk protections, has issued C shares three times in the past decade. Its total return over the past three years is -75.8% for the ordinary shares and -55.2% for the C shares, according to SharePad.

Two other beleaguered trusts, **Hadrian's Wall Secured Investments (HWSL)** and P2P Global Investments, now called **Pollen Street Secured Lending (PSSL)**, have also issued C shares and have subsequently delivered poor returns for investors.

Timbaland

By **Yoosof Farah**
Reporter

What does the coronavirus outbreak mean for retirement investors?

We look at the impact of volatile markets on pensions

Investors are enduring the first 'bear' market (when stock markets fall by 20% or more) since rules were introduced in 2015 giving people total flexibility over how they spend their pension pot from age 55.

In fact, the uncertainty gripping markets since the coronavirus outbreak hit means millions are nursing short-term losses of 40% or more. The extent of the impact of the pandemic depends of course on the mix of assets you hold in your portfolio, with those mainly invested in equities, such as FTSE 100 companies, taking severe punishment.

Such significant falls in fund value present challenges to the more than 150,000 people who have entered drawdown each year since 2015.

In particular, anyone taking big income withdrawals in the early years of retirement while also suffering large negative investment performance may need to re-evaluate their strategy.

TIPS FOR PEOPLE IN DRAWDOWN AND WORRIED ABOUT CORONAVIRUS

1. Review your withdrawals and investments regularly to make sure your retirement income strategy remains sustainable.
2. If you have any cash investments, consider drawing on these first rather than selling down your capital to fund your retirement. This will give your underlying investments better opportunity to recover value after a market dip.
3. Using just the 'natural income' your investments produce via dividends can also mitigate the risk of pound-cost ravaging, as it means your capital remains untouched. However, you may have to accept a variable income as a result.
4. Don't panic buy or sell investments based on short-term, uncertain market volatility – this risks layering on costs without any guaranteed benefit.

INCOME WITHDRAWALS AND POOR PERFORMANCE A BAD MIX

What happens when large income withdrawals are coupled with poor investment performance?

While up until recently those in drawdown are likely to have seen their retirement incomes buoyed by positive investment returns, the same may not be true in the near future – and at least until the current volatility has subsided.

In 2018/19, withdrawal rates of 8% or more were the most common across all pot sizes in drawdown except the largest (£250,000 and above in value, where the most common rate was between 2% and 4%), according to official data from the Financial Conduct Authority (FCA).

It's worth noting these percentages are based on individual pots and so don't take into account people with multiple pensions or other assets. AJ Bell's own research points to average withdrawal rates as a proportion of all private pensions in the region of 4% to 5%.

The sustainability of withdrawals at these levels will come under pressure where market falls are experienced, particularly in the early years of drawdown.

Let's assume someone is taking 5% of their initial fund value as a retirement income, rising by 2% a year in line with the Bank of England's inflation target.

If they suffered a 20% hit on their underlying investments in the first year in drawdown and then 4% growth thereafter they could see their pension pot run out after 18 years – three years sooner than if they suffered the hit 10 years into retirement (and 4% growth otherwise).

By contrast, someone who enjoys 4% growth throughout their retirement could take the same income for 25 years.

To put this into context, whilst on average life expectancy at 65 is 18.6 years for men and 21 years for women, the Office for National Statistics says a man has a one in four chance of living another 27 years, while a woman has a one in four chance of living another 29 years.

THE IMPORTANCE OF STAYING ENGAGED

This is exactly why drawdown investors who are taking an income from their capital need to build a sustainable withdrawal strategy and review that strategy regularly. These reviews should occur at least once a year, ideally with the help of a regulated financial adviser.

Periods of significant volatility such as the one we are experiencing now are also a good opportunity to give your retirement strategy a health check.

If you are in the early stages of drawdown and have seen the value of your fund plummet recently, it is important to keep calm but not stick your head in the sand.

If markets do not recover in the short-term, it may be necessary to reduce income withdrawals in order to ensure you aren't risking retirement ruin.

TIPS FOR PEOPLE APPROACHING RETIREMENT AND WORRIED ABOUT CORONAVIRUS

1. Think about your objective. If you're within five years of retirement and are planning to use your fund to buy an annuity, you should be reducing your exposure to potentially volatile equities so your returns are more predictable. If you're planning to stay invested through drawdown then your investment time horizon might be longer, meaning you can potentially ride out short-term fluctuations in performance.
2. If possible, consider delaying retirement until we have more certainty about what the future holds (clearly not an option for everyone).
3. Some people may be tempted to access taxable income for the first time from their SIPP, perhaps in anticipation of tougher times ahead. Be aware that if you do this, your annual allowance will be cut from £40,000 to just £4,000.

By **Tom Selby**
AJ Bell
Senior Analyst

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

What is a reasonable return to expect from investing?

Those looking for dizzying returns are likely to be disappointed

One of the main reasons why new investors tend to become despondent with the process is because they set unrealistic expectations for themselves.

The inexperienced tend to believe that they can achieve returns far and above what is reasonable, or likely. Search around the internet and you'll find countless investing strategies and systems that promise to double or triple your money in weeks or months. Do not fall for these hollow claims, they are for the foolish and extremely gullible.

The reality is not about knock-out performance for a handful of rocket stocks or star fund managers, but steady, incremental gains across a range of different investments over the long-run. New investors often fail to appreciate just how long it takes to build investment wealth, but investing is a process that should be measured in years, even decades (depending on when you start), not in months.

- **Have realistic expectations**
- **Play a long game**
- **Time and compounding are your friends**

This is because there is always the risk of external or company factors wreaking havoc with stock markets, funds and individual company shares over a short period. Losses are as much a part of investing as anything else, and you must be prepared to accept that.

£5,000 after a decade of investing: stocks vs bonds

	Stocks at 7.6%*	Bonds at 3.6%*
Year 1	£5,380	£5,180
Year 2	£5,789	£5,366
Year 3	£6,229	£5,560
Year 4	£6,702	£5,760
Year 5	£7,212	£5,967
Year 6	£7,760	£6,182
Year 7	£8,349	£6,405
Year 8	£8,984	£6,635
Year 9	£9,667	£6,874
Year 10	£10,401	£7,121
Total return	**180%**	**42%**

Source: Shares *Based on Credit Suisse Global Investment Returns Yearbook 2020

Take the current coronavirus. This emerged out of the blue and simply could not have been foreseen, yet it has hammered financial markets and share prices everywhere. The world is now in 'corona' chaos yet the FTSE 100 index, the UK's benchmark, is still more than 1,000 points above its lows during the depths of the financial crisis.

A REASONABLE RETURN

So what is a reasonable rate of return from investing? The simple answer is, it depends on your appetite for risk. If you hate the idea of risk, you can leave your savings in the bank or put them into government bonds. Neither will generate the kind of long-term returns you can get from the stock market but then you aren't taking any risk.

These assets are often used to calculate the so-called 'risk-free rate of return'. Riskier investments are benchmarked against this, with an expectation of higher potential returns as you move up the risk curve.

For example, you can get 1.31% a year (Virgin Money) from an easy-access cash ISA, according to MoneySavingExpert, or 1.55% if you're willing to tie you cash up for three years (Aldermore).

That's much better than the 0.24% annual income (yield) on a two-year UK government bold, or the 10-year's 0.37%, which could be considered as the risk-free rate.

So what does history tell us about what a reasonable rate of return is from different assets?

According to the Credit Suisse Global Investment Returns Yearbook 2020, global stock markets have delivered a real return of 7.6%, versus 3.6% for bonds over the past decade. The annual study is conducted by academics Professor Elroy Dimson, from Cambridge University, and Professor Paul Marsh and Dr Mike Staunton of the London Business School.

Real returns means after stripping out the effect of normal inflation. While we have had several years of low, sub-3% inflation (CPI averaged 1.74% in the UK during 2019) that is not always the case. In 2011 CPI averaged 3.85% and it was more than 7% in 1990/1991, figures that can significantly skew how much better-off investors really are over time.

Long-run returns have been more moderate than 7.6%, especially in local markets. For example, as the data shows, UK returns averaged 6.4% in the years between 1970 and 2019, but just 2.7% since the beginning of this century. That compares to 4.5% and 4.2% for gilts.

UK stock market returns		
1900-2019		
Shares	Bonds	Treasury bills
5.5	1.9	1.0
1970-2019		
Shares	Bonds	Treasury bills
6.4	4.5	1.7
2000-2019		
Shares	Bonds	Treasury bills
2.7	4.2	0.4

UK stock market returns		
1900-2019		
Shares	Bonds	Treasury bills
6.5	2.0	0.8
1970-2019		
Shares	Bonds	Treasury bills
6.2	4.1	0.7
2000-2019		
Shares	Bonds	Treasury bills
4.0	4.9	-0.5

Source: Credit Suisse Global Investment Returns Yearbook, 2020

It's a similar pattern in the US, where longer-range average return trump short-term gains for stock markets, illustrating how time is an investor's friend.

BENCHMARKING PERFORMANCE

The final piece of the returns puzzle is benchmark performance, or in other words, what investors should expect for investing in individual shares and stock-selecting 'active' funds versus buying passive trackers of indexes, like the FTSE 100.

Consider Layla. The 41-year old mother of two has earned an 11% total return (capital gains and dividend income) in both 2018 and 2019 from her portfolio of actively-managed funds. She is pretty chuffed with that since it is significantly better than she would have earned by leaving her cash in the bank, and it was also far better than the single-digit yield of gilts, or the risk-free rate.

Yet the FTSE 100 went up 13.5% during 2019, albeit not in a straight line. On reflection, Layla wonders why she would pay a 1% or so active fund management fee when they delivered a lower return than an unmanaged FTSE 100 tracker fund or ETF. However, in 2018 the FTSE 100 did less well, declining by about 12.4%, which nets off at a 9.94% return over the two years.

So her 11% is better, albeit not by a huge amount. Small margins over time add up because of the effects of compounding, where past profit can be reinvested to super-charge returns. Set against this you also need to consider the extra costs of actively managed funds compared with passive products.

By **Steven Frazer**
News Editor

AJBell Media

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KEY ANNOUNCEMENTS OVER THE NEXT WEEK*

Full year results

27 March: Applegreen, Robinson, Uniphar. **30 March**: Ades International, Belvoir, Horizon Discovery, Instem, Touchstone Exploration. **31 March:** AA, Animalcare, Henry Boot, Chesnara, DP Poland, Inspired Energy, Keywords Studios, Luceco, Michelmersh, One Media, The Property Franchise Group, Proteome Sciences, Quixant, TP, Tremor International, YU Group. **1 April:** Brave Bison, Cathay International, Futura Medical, RHI Magnesita, Sumo, The Mission Group. **2 April:** Allied Minds, Epwin, Hunters Property, Pebble, Saga.

Half year results

27 March: CVS. **30 March:** Quadrise Fuels. **31 March:** Diageo, Gattaca, James Halstead, Smiths. **2 April**: Tracsis.

Trading statements

30 March: Pennon. **1 April:** Topps Tiles, Wizz Air.

*Note these are scheduled releases but the FCA has asked results of Main market companies to be delayed, firms may still release trading updates

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MARCH 2020

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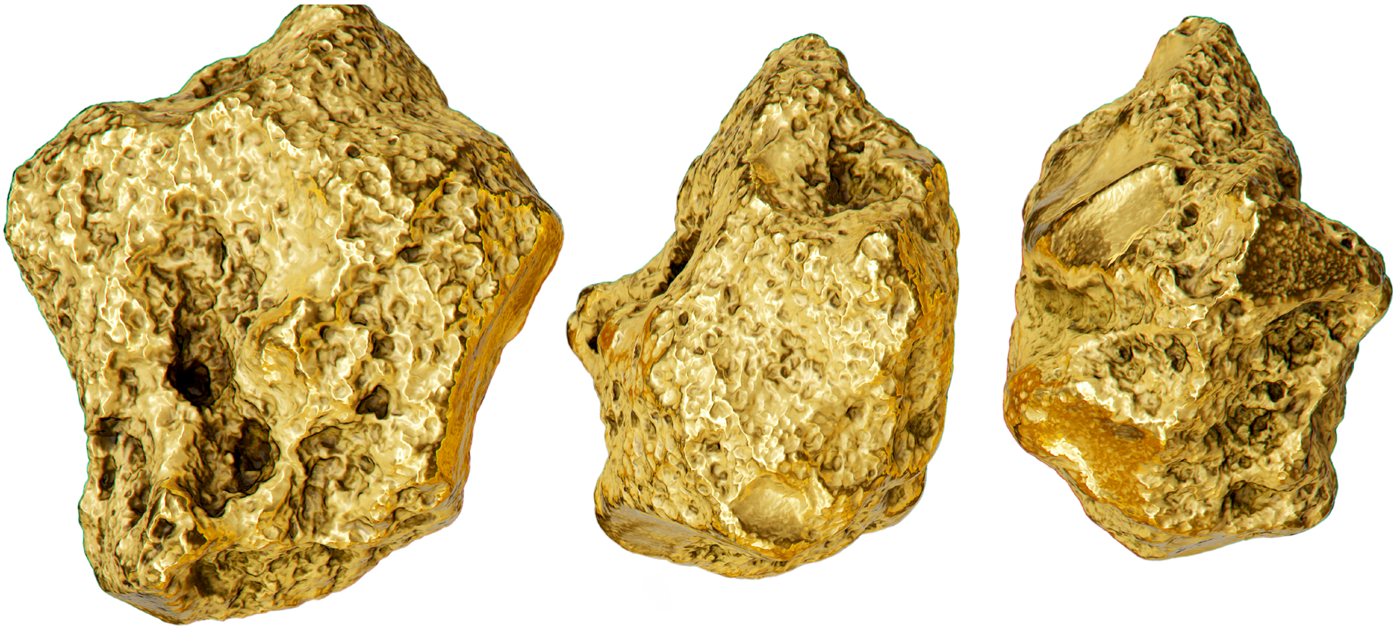

Introduction

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

It provides small caps with a platform to tell their stories in their own words and this edition is dedicated to the natural resources space.

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

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

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

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

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

Previous issues of Spotlight are available on our website.

DISCLAIMER

IMPORTANT

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What are zirconium and hafnium and why do they matter?

40
Zr
91.224
Zirconium

72
Hf
178.49
Hafnium

Zirconium (Zr) is commonly found in felsic rock an igneous rock rich in silica and feldspar. The most common source of zirconium is zircon (ZrSiO4), a zirconium silicate mineral.

Zircon's hardness, chemical inertness and durability mean it surpasses most other minerals when it comes to surviving weathering and erosion. As a result, zircon becomes concentrated in sedimentary deposits and is present in most sands. It is found in economic concentrations in heavy mineral sand deposits.

Hafnium is chemically similar to zirconium and separating the two elements is difficult. Because of this, most commercial hafnium is a by-product of zirconium refining. Zircon is the primary source of all hafnium, containing it at a ratio of about 50 to 1.

Hafnium is particularly resistant to corrosion and can absorb neutrons at a high rate, making it sought after by the nuclear industry.

WHAT ARE ZIRCON AND HAFNIUM USED FOR?

For centuries zirconium and its alloys have been used in a variety of industries, including ceramics and refractory applications. Today, around 51% of zirconium consumption remains in the ceramics industry, with around 25% used in the refractory (heat resistant), foundry and precision-casting segments. Other uses include nuclear fuel cladding, chemical piping for corrosive environments, heat exchangers and various specialty alloys.

Zirconium is also an increasingly important tool for new technologies, mostly due to its refractoriness, hardness and resistance to chemical breakdown. These new technologies include clean energy, such as solid oxide fuel cells that provide reliable and affordable portable power, as well as biocompatible, long-lasting, hard-wearing joints, such as ceramic knee and hip implants.

Zirconium can also be used in the signal amplifiers built into mobile phones and phone towers to boost signal strength and clarity. Hafnium is used in nuclear control rods, nickel-based superalloys, nozzles for plasma arc metal cutting and high-temperature ceramics.

WHERE DO ZIRCON AND HAFNIUM COME FROM?

Zircon is mostly produced as a co-product or by-product of the heavy mineral sands industry, which also extracts the titanium minerals ilmenite and rutile. Hafnium is a by-product of zircon refining. Global zircon production is dominated by Australia (33%) and South Africa (27%), with China (11%) and Indonesia (8%) also making significant contributions.

Between 1999 and 2014, zirconium supply grew at a compound annual growth rate (CAGR) of 6.75% from 673,000 tons to 1,680,000 tons. Between 2014 and 2016 supply decreased by 21% from 1,680,000 tons to 1,330,000 tons. Demand for zircon declined sharply in 2011 from 1.4 metric tonnes (Mt) to 1.1Mt in 2014 as a result of high prices, leading to demand destruction in the ceramics sector. Since 2011, however, demand has remained fairly flat at 1.1Mt but is expected to increase to 1.6Mt by 2025.

Supply and demand data for hafnium are not widely available because of the close association with the nuclear industry and the small customer base. Global production is estimated to be around 70 tons per year, of which at least 75% comes from China.

WHAT ZIRCON PROJECTS ARE COMING ON STREAM?

There are a number of heavy mineral sands projects in development that could add to zircon supply levels. Strandlines Resources is developing the Fungoni project in Tanzania and the Coburn project in Western Australia.

Base Resources is planning to increase its production levels by expanding production at its Kwale mine and developing the Torliara project in Madagascar.

Savannah Resources (SAV:AIM) and consortium partner **Rio Tinto (RIO)** are continuing to advance the Mutamba project in Mozambique.

Finally, Alkane Resources' Dubbo project could potentially provide a non-heavy mineral sands, non-zircon source of zirconium. The project is focused on a fine-grained micro-porphyritic trachyte that contains an unusual hydrous zirconium silicate, which could provide a source of zirconium with a lower radioactive content than zircon.

This article is based on a report produced by Edison Investment Research other Edison Explains research is available [here](#).

SERABI GOLD

Serabi driving growth through innovation

www.serabigold.com

AIM-quoted **Serabi Gold (SRB:AIM)** has, over the last few years, been quietly and successfully going about its business and in 2019 reported record levels of gold production, revenue, profit and cash generation.

For 2020, management are projecting further production growth with guidance of 45,000 to 46,000 ounces representing more than a 12% improvement compared to 2019. What is surprising is that this is being achieved without the need to install expensive additional milling capacity but simply by making its existing plant work better.

OLD SCHOOL MINER

Speaking with Mike Hodgson, Serabi's CEO, an old-school miner who cut his teeth in the Cornish tin mines, it is very clear that everything about Serabi's operations is geared to quality. 'Grade pays and tonnes cost' is his motto and he and his team are constantly striving to maximise the grade that they can extract from their underground operation in northern Brazil.

Having done everything possible to minimise dilution through its selective mining practices, the Serabi team are now trying to improve the grade of ore entering its process plant, through ore-sorting.

As Hodgson explains, it is unavoidable that non-gold bearing waste material gets mixed with the ore. Now using its recently installed ore sorter Serabi is looking to eliminate that waste before it enters the milling and processing plant.

With plant capacity being the limiting factor to increased gold production, every tonne of waste eliminated allows for an extra tonne of ore to be processed.

INTRODUCING... SERABI GOLD

A GOLD EXPLORATION AND PRODUCTION BUSINESS WITH ASSETS IN BRAZIL

ELIMINATING WASTE

Serabi believes, based on test work of the Palito ore, it could eliminate up to 100 tonnes of waste per day that is currently entering the process plant (20% of current daily throughput) and replace this with ore.

In this way the plant treats the same tonnage of ore but

with an increased average feed grade and gold production will increase.

Hodgson hopes that positive test work on the ore from the Sao Chico mine and Serabi's Coringa project will generate further benefits in the future. Moreover, he sees that this technology could open up many other opportunities for Serabi around the Tapajos region where the Company operates.

Underground vein mining may have gone out of fashion as companies pursued low grade, bulk mining opportunities. However, as Hodgson points out, whilst potentially cheaper to operate, bulk operations require significant capital to get off the ground.

By comparion the Palito mine was put into operation back in 2013 for less than $20m and Serabi's Coringa gold project, where they hope to start plant and site construction before the end of this year, is only projected to have a start-up capital cost of around $25m.

With equity capital scarce and debt providers looking for established track records, low cost, quick build projects, such as Coringa, could resonate with equity and debt providers.

With Coringa expected to produce around 38,000 ounces per annuum when in full production at an All In Sustaining Cost of around $850 per ounce, this will bring Serabi close to achieving 100,000 ounces per annum in the next couple of years.

EXPLORATION STRATEGY

The introduction of ore sorting is not the first time that Serabi has displayed imagination and innovation. Its exploration approach, whilst using tried and tested techniques also employs some creative solutions to maximise the value of money spent. Airborne geophysics and ground IP have identified some significant exploration opportunities particularly around the Sao Chico orebody.

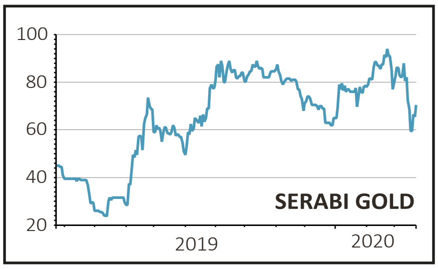
Serabi is now following these up with a drill programme which, to date, appears to have extended the strike of its existing Sao Chico ore body and started to generate positive results over some of the wider exploration targets. Whilst it is still early into the campaign, resource growth and the identification of additional orebodies around Sao Chico could herald a further opportunity to grow gold production in the not too distant future and certainly set Serabi well on its way to becoming a mid-tier gold producer.

SUPPORTIVE SHAREHOLDER BASE

Unlike many junior mining companies, Serabi has a strong and supportive shareholder base to help finance its growth. Fratelli Investments, a family office based out of Chile, initially financed the start-up of the Palito Mining Complex and hold a 32% interest in the capital.

Then in early 2018 the specialist mining private equity group Greenstone Resources took a 25% stake in Serabi and have recently followed this up with a commitment to provide a further US$12 million investment in the form of a convertible loan. Their presence on the register provides a strong technical endorsement to Mike Hodgson and his team.

On the back of its 2019 operational performance, Serabi's share price outperformed many peers during 2019.



Why there is excitement about Greatland Gold

What a recent big discovery could mean for the junior gold miner

One of the ultimate safe haven assets, as global stock markets descended into chaos gold looked all set for a strong 2020.

The price of the precious metal has been somewhat subdued in recent weeks despite plunging stock markets as there was widespread selling across nearly all asset classes.

But with uncertainty being the flavour of the day in financial markets, analysts see the gold price surging significantly higher again in the next few weeks and months.

There are a number of categories of investment exposed to gold prices, one of which is individual gold miners.

Among this group are junior firms focused on exploring for gold deposits rather than producing the metal.

A company in this space investors are getting excited about is **Greatland Gold (GGP:AIM)**, a £134m market cap miner with a number of projects in the gold-rich Paterson region of western Australia.

Its shares surged recently when it announced drilling results from Havieron, a project it owns which could have up to 5.5m ounces of gold.

The results showed grades of 9.8 grams and even up to 19 grams per tonne in some places. Anything over eight grams per tonne in an underground deposit like this one is generally considered very good.

In gold mining, grades tend to be very important. For example, if mining and processing costs are $100 per tonne of material dug of the ground, and that for every $100 spent you get two grams of gold, 15.5 tonnes would need to be processed to get an ounce of gold, given that an ounce is 31 grams.

So a miner would need to spend $1,550, before factoring in other costs, to get an ounce of gold. Given the current price is around $1,500 per ounce, it wouldn't realistically be economical to mine.

But if for example the grade was five grams per tonne, you'd only need to be process 6.2 tonnes so your costs would be $620 to get an ounce of gold, compared to the $1,500 per ounce price for which you can sell it.

That's why investors have been getting excited about Greatland Gold's drilling results at Havieron, which Numis analyst Justin Chan called 'one of the most exciting discoveries being advanced globally'.

Greatland Gold currently owns all of Havieron, but like all junior explorers with such deposits, the project will become increasingly owned by mining giant Newcrest as it spends money to develop it. This is known as a farm-in agreement. If it ends up a producing gold mine, Newcrest could own up to 75% of the project.

By **Yoosof Farah** Reporter

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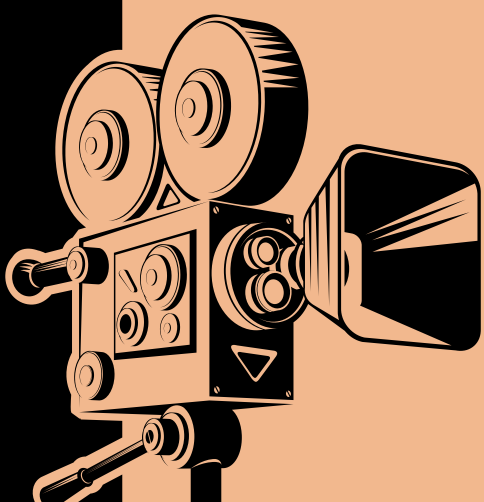
Jadestone Energy is an oil and gas company which is engaged in exploration, appraisal, and pre-development activities in Southeast Asia, production activity in the Carnarvon basin, and production activity in Sumatra.

Mark Reid, CEO
SDX Energy (SDX)

SDX Energy is an international oil and gas exploration, production and development company, headquartered in London, United Kingdom, with a principal focus on MENA.



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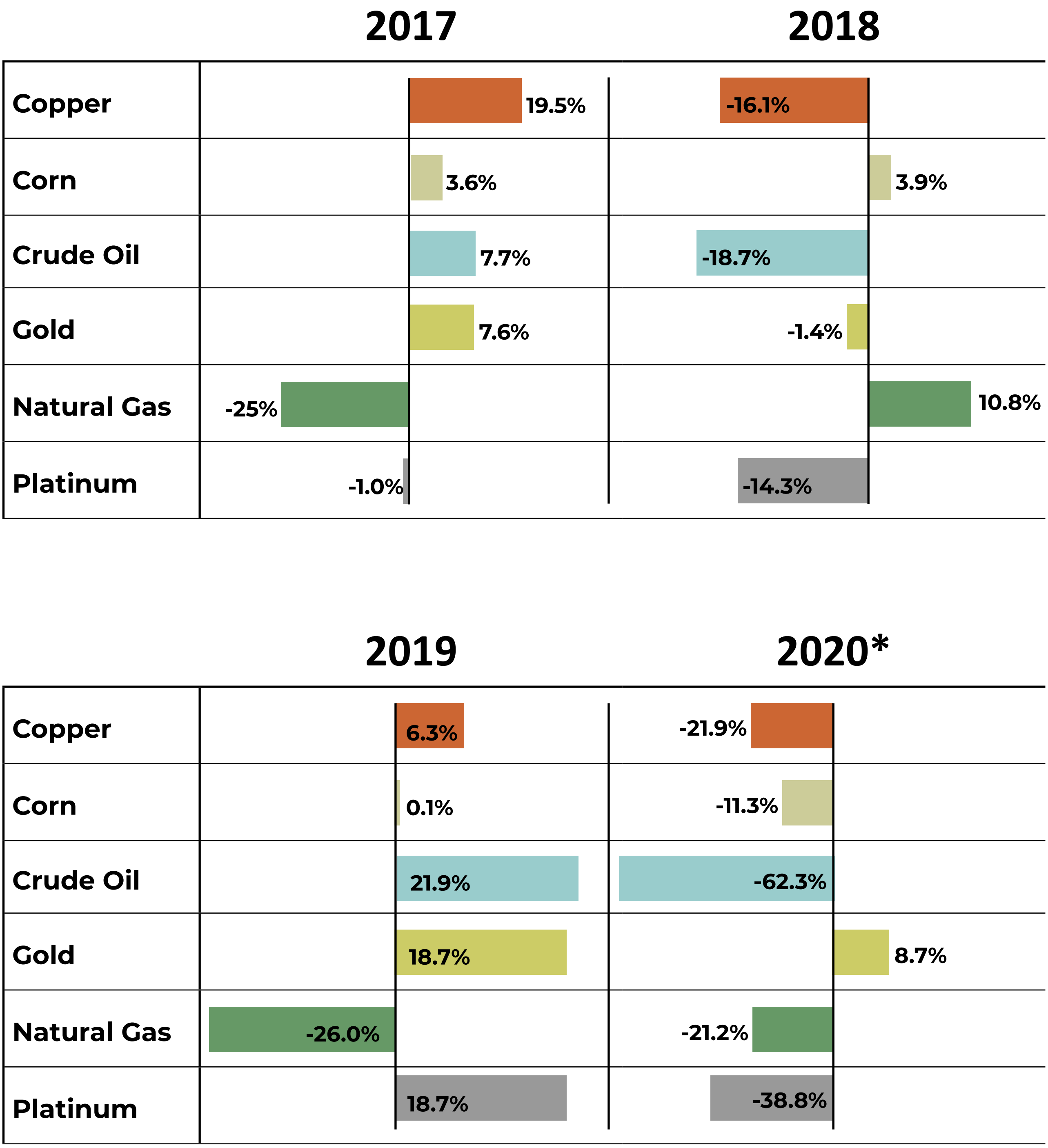
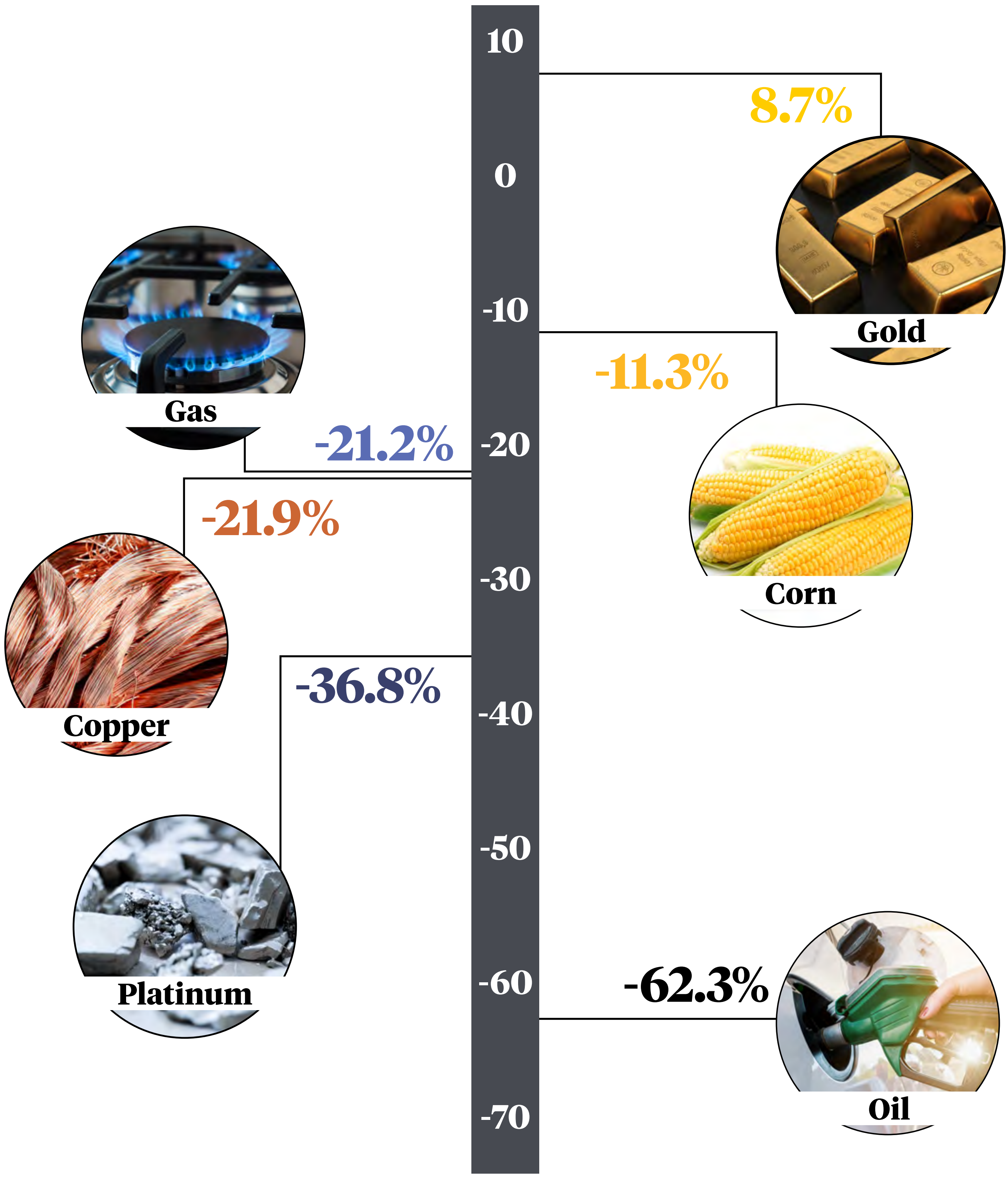
Databank – Commodity price performance 2016-2019



Source: Thomson Reuters Datastream. *Year to 23 March 2020.

Databank – Gain / loss so far in 2020



Source: Thomson Reuters Datastream. Data to 23 March 2020.