STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

INVESTORS' PAIN RELIEF

Your guide to getting through this tricky period

PLUS

FIVE WAYS TO SPOT A **MARKET BOTTOM**

FUND MANAGERS REACT TO **CORONAVIRUS CRISIS**

WHERE TO FIND **RELIABLE INCOME**

Two things you must seek in fund managers' latest reports

Look for evidence of style drift and being too aggressive prior to the sell-off

The start of April means fund managers should now being issuing their latest quarterly reports. Normally that wouldn't be anything out of the ordinary, yet these reports will contain the first insight into how many funds have coped with the global market sell-off in late February and most of March.

Some funds and investment trusts have already issued commentary on their state of affairs. Others will have waited until the end of the first quarter before quantifying events.

WHAT TO LOOK FOR

Firstly, look for evidence of style drift. This is where a fund manager is doing something different to their usual approach in order to avoid being hit too hard or perhaps to chase a short-term opportunity to make up some lost ground.

Managers should really be sticking to one investment process, regardless of market conditions. Just look at Neil Woodford who was guilty of style drift and it cost him his business.

Really horrible market conditions typically cause investors to panic and make irrational decisions which they may come to regret later on. Fund managers can also succumb to fear, yet they should be sticking to their investment mandate.

Scottish Investment Trust (SCIN) looks as if it has drifted from its usual value focus. As we reveal in this article, fund manager Alasdair McKinnon has made significant changes to his portfolio, moving from many value stocks into expensive defensives.

On one hand he is trying to protect shareholders in a very difficult time for the markets. On the other hand, by reducing exposure to retailers and banks, among others, he is putting the investment trust in a weaker place to benefit from any market rebound as the stuff he's sold could be first to bounce back and the defensives he now owns might be left behind.

BEING TOO AGGRESSIVE

The second thing investors should seek in the latest batch of fund manager reports is evidence that portfolios might have been too aggressively positioned going into the market sell-off.

Witan Investment Trust (WTAN) had 12% gearing (borrowing) going into February's market crash. The higher the gearing, the greater the chance of underperforming in a market downturn, which Witan has found out. Its net asset value fell by 24% over the sell-off versus a 15% fall in its global benchmark.

We reveal in this article how **Temple Bar (TMPL)** paid the price for having large stakes in companies experiencing big problems such as outsourcing provider **Capita (CPI)** and building materials group **SIG (SHI)** or ones which the market believes will struggle this year, such as **Marks & Spencer (MKS)**.

After discussion with the trust's board, fund manager Alastair Mundy sold more defensive holdings – seemingly the opposite approach to Scottish Investment Trust – to reduce borrowing levels. But he cannot be accused of style drift as the portfolio restructuring maintains his contrarian approach with a heavy focus on value and a recovery in UK domestics, having sold the least cyclical positions.

By **Daniel Coatsworth** Editor

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Why oil prices have plunged to 18-year lows

We also look at the outlook for metal prices and how shares in commodities producers have fared

Oil prices have plunged to 18-year lows of under $21 a barrel with over half of global demand wiped out amid the coronavirus pandemic, while in metals some clear winners and losers are starting to emerge.

In the commodities world, oil appears to be hit hardest thanks to a huge drop-off in demand from the coronavirus pandemic combined with a price war between two of the world's largest producers, Saudi Arabia and Russia.

Certainly a big part of the collapse in demand has been the cancellation of the vast majority of flights around the world, as an increasing amount of airlines ground their entire fleets.

According to *Forbes*, oil for transport accounts for 60% of the entire 101m barrels per day global oil market.

Warren Patterson, head of commodities strategy at ING Economics, believes there is further downside to come for oil, with demand set to shrink by 2m barrels per day and the only thing bringing oil producers' cartel OPEC back to the table to stabilise the market being even lower prices.

In the absence of an emergency meeting, it won't be until June before OPEC meets again, by which time a significant surplus of oil will have accumulated with demand having fallen off a cliff.

It's no wonder shares in oil producers have fallen markedly. **Royal Dutch Shell (RDSB)** and **BP (BP.)** are down around 40% and 30% respectively year-to-date.

While in the FTSE 250, oil explorers **Cairn Energy (CNE)** and **Energean Oil & Gas (ENOG)** have fallen 60% and 38% respectively.

As for metals and mining, the picture is a lot more mixed. According to analysts at UBS, gold could rally again having been unusually subdued in the current economic crisis.

They estimate gold will hit $1,700 per ounce by the end of June, up from its current level of $1,600 per ounce.

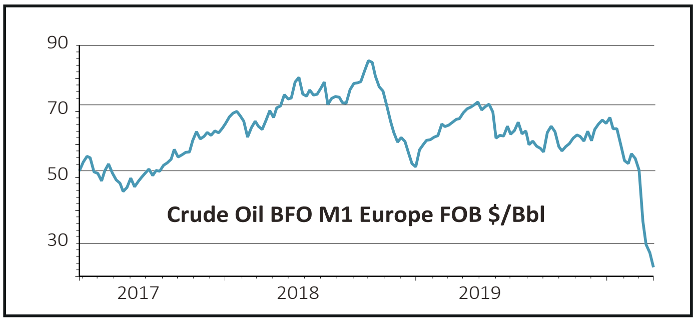

BHP

Platinum group metals – which include rhodium, platinum and palladium – have also been a big beneficiary of recent events, with a 21-day lockdown in South Africa forcing mine closures.

The prices of platinum and palladium in particular have rebounded, with South Africa providing around 70% to 75% of the world's platinum supply and 40% of an already very tight palladium market.

As far as share prices go, it seems the big beneficiaries so far have been the gold miners, with **Polymetal (POLY)**, **Fresnillo (FRES)** and **Centamin (CEY)** all up year-to-date, compared to big falls for the major diversified miners such as **Anglo American (AAL)**, **BHP (BHP)** and **Rio Tinto (RIO)**.

Copper prices may decline as much of the world's manufacturing is dented by the coronavirus outbreak. Shares in copper producer **Antofagasta (ANTO)** are down around 20% this year.



Market mood lifted by huge financial support but investors remain wary

Equities are expected to stay volatile as companies retreat into cash conservation mode despite hope of coronavirus vaccine

World stock markets staged a decent rally last week with major indices bolstered by huge financial stimulus packages. Most pertinently, a deal has been reached between President Trump's administration and Congress on a $2trn fiscal support deal, equivalent to just under 10% of GDP, dwarfing the global financial crisis plan, which amounted to around $800bn.

Global equities, measured by the MSCI All-Country World Index, rose 12.9%, and included the best three-day gain for the S&P 500 since 1933. The S&P 500 ended the week up 10.3%, the Euro Stoxx 50 up 7.1%, and even emerging markets up 6%.

UK investors embraced the rally with gusto, sending the benchmark FTSE 100 index up 6.2%, while even the more domestically-focused FTSE 250 gained 8.7%. Markets started this week on a more stable footing.

Sentiment was aided by US healthcare group Johnson & Johnson saying it had identified a lead vaccine candidate for the coronavirus. The company noted that human testing on the potential vaccine will begin in September, and while that may seem like a long way off, the news pushed up J&J's shares by 8%. Italy also reported its lowest number of new coronavirus cases in almost two weeks which is seen as another positive sign.

'All in all, the pandemic still looks to be on a runaway path, though there are some signs that some of the European hotspots are cooling very slightly,' said Robert Carnell, Asia-Pacific research chief at investment bank ING.

Dividend cuts continue to dominate market news in the UK, a major worry for income-seeking investors. So far 13% of FTSE 100 companies have now axed dividends after ad agency **WPP (WPP)** and engineer **Smiths (SMIN)** added their names to the lengthening list earlier in the week.

There are many more companies pulling dividends down the market value ladder, including **AA (AA.)**, **IMI (IMI)**, **Morgan Advanced Materials (MGAM)** and **Oxford Instruments (OXIG)** this week.

But while property firm **Hammerson (HMSO)** warned of a rent strike and **EasyJet (EZJ)** and BA-owner **International Consolidated Airlines (IAG)** grounded aircraft, it is far from complete doom and gloom.

Earlier in the week tobacco giant **Imperial Brands (IMB)** rallied more than 14% after it secured a new €3.5bn credit facility and said it had experienced no material impact on its performance from the coronavirus outbreak. Investors were also cheered by news that pizza delivery chain **Domino's Pizza (DOM)** had hired former Costa Coffee head Dominic Paul as its new chief executive.

BEST PERFORMING FTSE 100 STOCKS IN 7 DAYS TO 31 MARCH 2020

Legal & General	16.4%	**United Utilities**	13.0%
Compass	15.0%	**National Grid**	12.1%
Smiths	14.8%	**Persimmon**	11.9%
Bunzl	13.6%	**Whitbread**	11.5%
InterContinental Hotels	13.4%	**Auto Trader**	11.4%

Source: SharePad

Bill Ackman sets record straight after $2.6bn win

Wall Street investment king comes out fighting following misconstrued TV appearance

Wall Street investor Bill Ackman has defended his 18 March appearance on *CNBC*, which drew criticism that he had deliberately scared people in order that his asset management firm Pershing Square could make money from the coronavirus crisis by betting against the market.

Ackman says that rather than being very bearish on the show, he had in fact turned sufficiently bullish to be buying stocks in the belief the US administration would shut down America for 30 days. This unprecedented action would beat the coronavirus and send markets and the economy into recovery mode.

The investor made $2.6bn from a recent bet designed to protect Pershing Square from falling stock markets triggered by the pandemic.

He says the firm's priority is always to protect its investors, including pension funds and private investors, from losing money. Pershing Square therefore decided to hedge against coronavirus risk, rather than sell all its investments.

Bill Ackman

By the time Ackman was interviewed by *CNBC*, the hedge had already paid off. 'In fact, we had sold more than half the hedge prior to the show, and the balance over the next three trading days,' says Ackman.

Pershing Square has reinvested the proceeds in 'companies we know very well'. These include hotels giant Hilton, Starbucks and Restaurant Brands, which generates royalties from the Burger King, Tim Hortons and Popeyes brands. It has also invested $500m to allow real estate developer Howard Hughes Corp to press ahead with various development projects.

Temple Bar dumps holdings after share price collapse

The investment trust has sold its defensive holdings to raise cash and reduce borrowings

VALUE-ORIENTED INVESTMENT trust **Temple Bar (TMPL)** has removed gearing – borrowing money to invest – after its share price more than halved since the coronavirus crisis began.

Following a discussion between its board of directors and manager Alastair Mundy, the latter agreed to sell the defensive stocks in the portfolio to raise cash and offset borrowing.

The £484m trust invests in equities, metals and cash, and has large positions in banks and oil producers, both among the worst performing sectors year to date. Its largest holding at the start of 2020 was outsourcing group **Capita (CPI)**, representing nearly 8% of the portfolio. Year-to-date Capita's share price has fallen by 80% after the company said its restructuring would take longer and cost more than originally estimated.

Analysts at Numis said the discussion between Mundy and the board would've been 'interesting' and added: 'We can understand the urge to reduce risk through a reduction of gearing, but we expect it may have been difficult for a contrarian manager to sell holdings after a market fall.'

Housing market goes into coronavirus hibernation

Lenders pass on rate cuts but withdraw mortgage offers

The housing market has become the latest casualty of the coronavirus epidemic as the Government lockdown snuffs out the nascent recovery which followed the Conservative election victory in December.

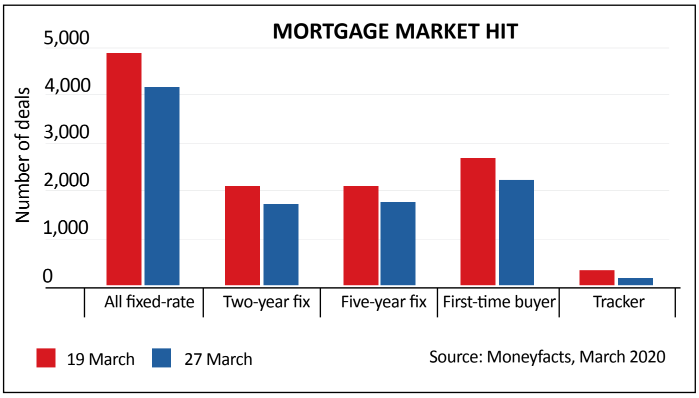
Estate agents and surveyors had seen a sharp rebound in the number of house transactions across the UK following the election result, after years of economic and political uncertainty. House prices had also staged a sharp recovery post the election.

However, late last week the Government said that in an effort to slow the spread of the coronavirus, it would discourage buyers from going ahead with house sales and purchases unless they have already exchanged contracts, saying no-one should move unless absolutely necessary.

As a result, estate agents have shut up shop, banks are withdrawing many of their mortgage offers, and house prices look set to fall again.

The Government move, which has effectively suspended the country's property market, was actually prompted by calls from the high street banks which were concerned about the impact of the pandemic on valuations and about lending money with the economy in lockdown.

With agents and valuers no longer able to visit properties and submit surveys, banks' credit teams have little idea of valuations so many are not just reducing the number of loans they approve but are also cutting the amount they are prepared to lend.



It should be noted that mortgage providers will give customers who have already exchanged contracts the option to extend their mortgage offer for up to three months to enable them to move at a later date.

Although most banks have committed to passing on the 0.65% cut in Bank of England base rates, according to consumer magazine *Which?* the industry withdrew over 900 mortgage products last week.

Since the last cut in bank base rates, the number of available mortgage deals has fallen from 5,697 to 4,761, a drop of 16%, with tracker mortgages the biggest casualty by far, down 47% from 306 to just 163.

Britain's biggest mortgage lender Halifax, owned by **Lloyds (LLOY)**, has pulled most of the mortgages it sells through brokers, including all first-time buyer deals, and is no longer offering mortgages with a loan-to-value of more than 60%.

Cutting the number of deals on offer also helps the banks to manage the pressure on their call centres, which are understaffed and have been inundated with enquiries.

Customers are not just calling about new mortgages: many homeowners are looking to remortgage at lower rates thanks to the record low level of base rates, while many others are requesting mortgage 'holidays'.

Have capital preservation funds lived up to their name?

We examine how they've performed in a tumultuous past three months

Capital preservation funds have done a good job at protecting investors' money during this year's significant market sell-off, but they haven't avoided losses entirely.

In the three months to 24 March, the MSCI World index fell by 22.4% and the FTSE 100 declined by 33.7%. In comparison, eight out of nine capital preservation funds saw significantly smaller losses.

The best performer was **Ruffer Investment Company (RICA)** which was only down 5.4% over that three month period. It invests in equities, government and corporate bonds, and gold.

Fellow capital preservation play **Personal Assets Trust (PNL)** declined by 8.5% on a three month view. Its investment policy is to protect capital first, with growth second on the priorities list.

Aimed at the cautious investor who is more concerned about not losing money rather than making outstanding returns, the trust has allocations to companies with pricing power in defensive sectors as well as gold bullion and US and UK government bonds.

Capital Gearing Trust (CGT) fell 10.7% over the three months. Its stated objectives are to preserve shareholders' real wealth (i.e. accounting for inflation) and to achieve absolute total return over the medium to longer term.

Its 10 year performance is the best of the capital preservation funds, having generated a 60.7% total return.

That compares with 57% from Personal Assets and 29.3% from Ruffer, although fellow wealth preservation specialist **RIT Capital Partners (RCP)** is close behind at 59.7%.

RIT has a multi-asset mandate and aims for long-term capital growth while preserving capital by investing in equities, private investments, credit, macro strategies and real assets. It is the worst performing capital preservation vehicle over the past three months, down 31.9%, almost in line with the FTSE 100.

Elsewhere, **MI TwentyFour AM Monument Bond (B3V5V89)** has the stated aim of providing an attractive level of income relative to prevailing interest rates, while maintaining a strong focus on capital preservation.

The fixed income specialist's 5.3% negative return over the past three months compares very favourably with the declines suffered by the FTSE 100. However, its focus on bonds meant the fund lagged the raging equities bull market that has existed for most of the past decade.

On a 10 year basis it has returned 25.6% versus 116% from the MSCI World equities index, although only marginally behind the FTSE 100's 29.1% total return over the same period.

Capital preservation funds and trusts	1 month	3 months
Architas Multi-Manager Diversified Protector 85	-5.2%	-3.6%
Architas Multi-Manager Diversified Protector 80	-6.9%	-4.7%
TwentyFour Monument Bond	-6.1%	-5.3%
Ruffer Investment Company	-1.9%	-5.4%
Architas Multi-Manager Diversified Protector 70	-10.4%	-7.6%
Personal Assets Trust	-11.2%	-8.5%
Capital Gearing Trust	-11.8%	-10.7%
Investec Multi Asset Protector	-13.4%	-12.8%
RIT Capital Partners	-30.5%	-31.9%
Examples of benchmark indices	**1 month**	**3 months**
Index : S&P 500 TR in GB	-24.3%	-21.7%
Index : MSCI World TR in GB	-24.0%	-22.4%
Index : FTSE 100 TR in GB	-32.1%	-33.7%

Source: Fe Fundinfo, data to 24 March 2020

Byotrol steps up in the fight against coronavirus

Investors will soon get a clearer idea of how a demand surge will boost earnings

The third best performing share on the UK market this year is about to update investors on its role in helping to fight the coronavirus pandemic.

Byotrol (BYOT:AIM) is helping to save lives by supplying its novel hand sanitiser to the NHS, with a proven 'kill claim' against coronavirus. Its shares have risen by 213% year-to-date versus a 28% drop in the FTSE All-Share.

On 23 March it reported a 'very substantial increase in demand' for its infection prevention and control technologies, leading the company to say that full-year earnings to 31 March would exceed guidance given at its half-year results.

It should tell the market in mid-April how many orders it had been able to fulfil by its financial year-end, thus putting a firmer figure on earnings guidance.

The company operates in a growing multi-billion dollar marketplace. It develops and commercialises market-leading antimicrobial technologies that safely neutralise and remove microbes from places where they can harm living things.

Its board includes Sean Gogarty, who was a divisional chief executive at **Unilever (ULVR)**; and chairman John Langlands, who used to run British Polythene Industries, the largest producer of polythene film products in Europe.

Over the last five years the antimicrobial marketplace has become increasingly regulated in an effort to make products safer and ensure that claims made are supported by verifiable scientific methods.

Since 2014 Byotrol has been developing proprietary chemistries which it knew would get regulatory approval, as well as meet a specific customer need.

Approved status means products are protected under national and super-national regulatory rules which give Byotrol opportunities to monetise intellectual property through licencing deals to third parties or alliances to produce finished products to the business and retail markets.

The company has built a focus and expertise in three areas: US surface care, regulated by the US Environmental Protection Agency; and EU surface and consumer personal care, both regulated under Biocidal Products Regulation.

Realising that it needed a specialist sales force, last year the company acquired Medimark, which has a pet care business but also brought a dedicated sales team as well as complementary products.

The firm recently struck a deal with SC Johnson Professional to supply its alcohol-free hand sanitiser formulation Invirtu to the UK and Irish health services, exclusively under SCJP branding.

Most recently the company announced a collaboration with **Tristel (TSTL:AIM)**, the European leader in spores infection control. The idea is to combine their respective chemistries to launch a unique product which will kill all known viruses and bacteria on surfaces in less than two minutes and, crucially, last for up to eight hours.

Byotrol will receive a combination of fees based on supplying products and royalties based on success, with meaningful minimum guarantee payments.

A safe haven for dividends and customer demand

Supermarket Income REIT looks very attractive in a volatile market

Despite companies across the market cancelling their dividends, there is a stock which offers income investors a safe haven.

Supermarket Income REIT (SUPR) invests in UK property used to house supermarkets and fulfilment centres. Its biggest customers are **Tesco (TSCO)**, **Sainsbury's (SBRY)**, **Morrisons (MRW)** and Asda.

The company aims to provide long-dated, secure, inflation-linked, growing income and capital appreciation over the longer term, with a target of a 7% to 10% total shareholder return per year over the medium term.

In contrast to most commercial property companies which are having to reduce rents, Supermarket Income REIT recently agreed inflation-linked rental increases on two of its properties. And unlike some property firms struggling to be paid, it has confirmed that 100% of its March 2020 quarterly rental payments is expected to be received.

Thanks to the rent reviews, and its confidence in collecting all of its rent for the quarter, the company confirmed its third quarter interim dividend of 1.46p, meaning it is on track to meet its full-year target of 5.8p or a yield of 5.5% on the current share price, albeit no companies guarantee dividends.

Supermarket Income REIT says it has a robust balance sheet and is in a strong position to continue operating as usual despite the wider uncertainty.

After paying the third quarter dividend, the net loan-to-value ratio is expected to be 37.5% versus a limit on its covenants of 60%. Moreover, interest cover on the company's debt is 6.8 times compared with a limit on its covenants of 2 times, and it has a cash balance of £32m.

Thanks to its solid balance sheet, the company continues to look for acquisitions. In February it joined forces with 'a large institutional investor' to acquire a minority stake in a portfolio of 26 supermarkets let to Sainsbury's, although a deal has yet to be finalised.

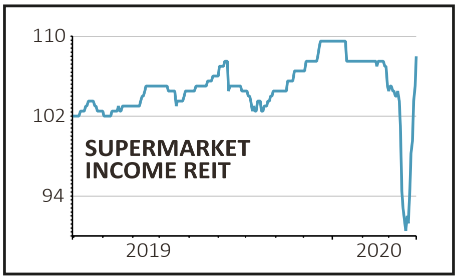
Due to the lockdown on pubs, restaurants and food-to-go shops, the food retail industry has entered what analyst Clive Black of Shore Capital calls a 'new normal' where shoppers are driven to physical supermarkets and online, pushing sales up by as much as 50% or more.

While demand may ease in coming weeks after the household stockpiling seen in March, sales could still grow by 10% or more 'for as long as this situation persists' adds Black.

For investors seeking income and at the same time a way to tap into the strong growth in supermarket sales, Supermarket Income REIT is tailor-made.

SUPERMARKET INCOME REIT
BUY
(SUPR) 105p

Market cap: £355m



By **Ian Conway**
Senior Reporter

Cranswick is a meaty share to own right now

It is likely to see earnings upgrades thanks to two significant tailwinds

CRANSWICK ↗ BUY
(CWK) £36.30
Market Cap: £1.8bn

Quality food producer **Cranswick (CWK)** has outperformed the UK stock market by 56% over the last six months and is up 23% in absolute terms. There are two major tailwinds working in the company's favour which should see the shares keep going up.

The lockdown in the UK has temporarily (and maybe permanently) changed consumer demand patterns with an estimated £1bn of extra food spend per week due to the closing of restaurants and pubs, according to broker Peel Hunt.

This plays directly into Cranswick's strengths as consumers, with little else to spend on, opt for higher quality meats as a way to create family treats.

The scourge of African swine fever which has destroyed around half the pig herds in China also presents a major export opportunity for Cranswick. Analysts estimate that it will take between three and five years to fully replenish.

The company saw strong sales of goods at the back end of 2019 before the coronavirus hit, in preparation for Chinese New Year. While there have been some port issues, Cranswick continues to expect to see around 60% of UK pig meat volumes exported to China, with prices well above average.

Meanwhile, evidence that African swine fever has spread to Eastern Europe means that EU pig prices, which normally trade at a discount to the UK, are instead at a premium because product availability is being hit. That could drive Eastern Europe to import meat from the UK, assuming no hitches with logistics.

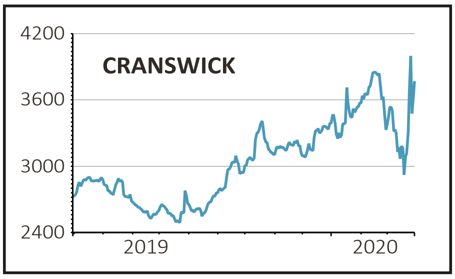
One of the key attractions for buyers of Cranswick meat and poultry is the provenance and security of its supply chain, which reflects many years of initiatives and investment aimed at improving animal welfare and protecting the environment.

The company has been moving towards a vertically integrated model and today supplies around a third of its own production needs. It moved further in this direction after the recent acquisition of Packington Pork and the Buckle family pig business, which added over 7,000 pigs per week to capacity.

In these uncertain times, it is even more important to make sure that firms are adequately financed to continue operations and have enough in reserve to face unanticipated events.

Cranswick's balance sheet is conservatively managed. The business had a total credit facility of £240m, compared with net debt of £113m, at the interim stage in November, giving plenty of headroom.

With strong cash flow, Cranswick is well positioned for continued growth through the crisis and to maintain high returns on capital in the 18% to 20% range.



By **Martin Gamble**
Senior Reporter

INVESTORS' PAIN RELIEF

Your guide to getting through this tricky period

By **Tom Sieber** Deputy Editor

All market corrections are different and have different causes, and the one currently being experienced has been notable for both its scale and speed, and for the fact it is being driven by a health emergency rather than a financial one.

The simple fact is many investors will have been caught off guard by the events of the past month.

In this article we will provide some ideas about how to get through the current volatility with the least amount of damage to your wealth as possible.

We offer suggestions of what to do based on various personal circumstances as well as provide some expert insight into these extraordinary times.

SORT OUT YOUR FINANCES

First of all it is worth going back to basics. With many of us stuck indoors, there is an excellent opportunity to set some time aside to sort out your finances.

Start by measuring your regular incomings and outgoings. Most of us now have online banking so this should be a straightforward process but paper copies of your bank statements are fine too. Look back over the last 12 months and identify the biggest expenses. How many are truly necessary?

Do you have sums sitting dormant in forgotten savings accounts or a number of disparate pension schemes accumulated over the course of a career?

Consolidating could lead to substantial savings. It is also worth shopping around to get the best deals on insurance and utilities. All of us will have levers we can pull to run a more financially efficient household.

Once you've done this it is worth returning to your short and long-term savings goals. Doing so will help you block out at least some of the alarming background noise and focus calmly on what you are trying to achieve. It will also give you an insight into how much the last month has set you back and the steps you need to take to get yourself back on track.

Anyone who is worried about their job security should not be putting money into the markets at the moment unless they've already got a substantial buffer of emergency cash savings.

WHEN WILL THE PAIN BE OVER?

It remains hard to say when markets will bottom out. Governments and central banks have loaded up their big guns and fired huge amounts of stimulus and support to mitigate the impact of lockdown measures and to try and keep their economies afloat.

There are three things which will be worth watching in the coming weeks:

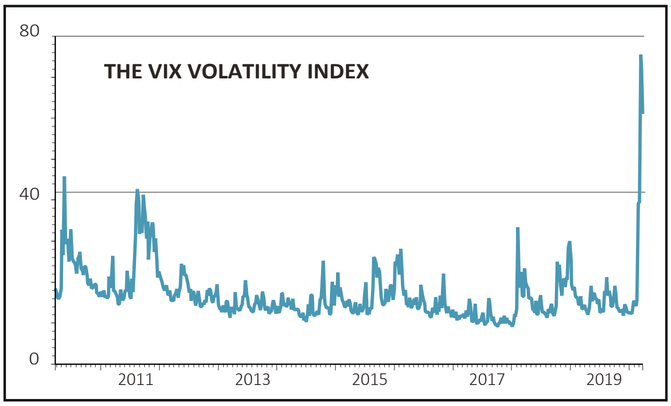
1 Are containment measures working and what progress is being made on the medical front?

If we start to see that attempts to suppress the virus are working and the daily rate of new infections and deaths is coming down, this will help provide a bit more hope for a sustainable economic rebound soon after.

The market will also be watching for improvements in testing for the virus, including an antibody test which could confirm if you have been infected at any point. Further points to watch include increased capacity in medical systems to cope with surging demand as well as the efficacy of new coronavirus treatments.

2 Has market volatility settled down?

One of the first signs that markets are back on an even keel is likely to be a reduction in volatility. The VIX index, the main measure of market volatility, is below its highs but still at elevated levels. If we can see a few days of more steady movements (up or down) in stocks this could be an encouraging sign.



3 Can China show the way out?

China is beginning to relax the strict restrictions it put in place when the coronavirus first emerged in January. Many observers will be watching their exit strategy from lockdown conditions closely. If there is not a new spike in infections this will offer considerable hope to countries around the world.

> **There is a reasonable likelihood that the threat will have abated within six months to a year if the right measures are taken to protect people and economies**
>
> **....................**
>
> **At this stage, demand is being delayed, if you like, rather than cancelled altogether**
>
> **ASSET MANAGER BAILLIE GIFFORD**

WHAT IF I'M IN RETIREMENT OR ABOUT TO RETIRE?

WE APPRECIATE THE situation is more complicated and difficult if you are nearing or are already in retirement.

If you are approaching retirement, you may have already benefited from moving more of your portfolio into lower risk assets like bonds. However, if you are still heavily invested in stocks and shares it probably does not make sense to sell now.

If, for example, you sold all your investments and bought an annuity at retirement, you might be crystallising losses at the market bottom and buying a product offering very low rates of return (see table), even if it does provide the certainty of guaranteed income.

If it is an option, you could consider putting retirement plans on hold until there is a bit more certainty on the outlook for equity markets. This could also allow time to claw back some losses once the coronavirus outbreak has been contained.

If not, one option at retirement might be to enter drawdown, i.e. remain invested in retirement and take an income from your investment pot.

If you go down this route or are already in drawdown and take money from your investments to fund your cost of living you could fall victim to so-called 'pound-cost ravaging'. This term is used to describe the impact that a downturn in financial markets has on investment withdrawals.

When you take money out of your pension you sell down your fund to generate income, unless you are simply withdrawing cash from dividend payments, something which is likely to prove more difficult given the recent wave of dividend deferrals and cancellations announced by companies. Later in this article we look at where you might find income in the current environment.

As the last few weeks have highlighted, market values change regularly and to generate a specific level of income you'll sell down part of your pension fund depending on its value.

For this reason there is a strong argument for drawing on any cash you have instead for the time being, such as in an ISA or bank/building society savings account. This would provide you with some money and give your investments more time to recover.

Ultimately these are only hypothetical scenarios without taking into consideration individuals' different circumstances. It might be worth reviewing your retirement strategy with the aid of a qualified financial adviser if you can.

Annuity rates under pressure

Date of quote	Average single life standard annual annuity income	Average single life standard annual annuity income
	Age 65 (£10,000 purchase price)	**Age 65 (£50,000 purchase price)**
01-Jan-19	£468	£2,557
10-Sep-19	£410	£2,237
% change	-12.3%	-12.5%

Source: MoneyFacts.co.uk. Figures show gross annual annuity income payable monthly in advance. Figures based on an annuitant age 65 buying a single life level without guarantee annuity.

WHAT SHOULD YOU DO WITH YOUR EXISTING INVESTMENTS?

IF YOU ARE already invested in the stock market, and do not need to access your capital in the short-term, then try and stick with your investments rather than sell them at depressed prices.

For example, anyone who recently sold a FTSE 100 tracker when the index hit intra-day lows below 4,900 would have missed out on a recovery rally which, as we write, runs to some 14%. There's a reason people often say that time in the markets beats timing the markets.

As fund manager Charles Montanaro observes: 'While the situation may well worsen – both in health and economic terms – we would caution against selling. It rarely pays to run for the hills after the market has fallen.'

Canaccord Genuity Wealth Management's chief investment officer Michel Perera underlines this point. He says: 'It's not totally impossible that once the markets feel the virus is under control, you could have a rally that could be up to 20% in one day.'

Doing as little as possible does not mean doing nothing, however. You should consider running a health check on your portfolio. The tone of recent trading statements from listed businesses has strikingly focused on their short-term liquidity, or in other words do they have enough cash to get them through hard times?

You do not want to be owning financially distressed companies. Many investors have already worked this out and those firms with weak balance sheets have seen their share prices marked down accordingly.

However, given the levels of uncertainty on just how long the current economic conditions might persist do not be tempted to hold on to a heavily indebted company just because its share price is bombed out. In the worst case scenario, i.e. the business goes bust, you could be left with nothing.

HOW TO READ A BALANCE SHEET

THE BALANCE SHEET can help tell us how much a company is worth, how healthy it is and whether its shares reflect these factors.

It deals with two concepts: what a company owns (its assets) and what it owes (its liabilities).

Assets come in different flavours: perhaps the key ones being 'fixed' and 'current'.

As a rule-of-thumb fixed assets are anything that will be around for a long time, like factories and land, trademarks and money already spent on research. Current assets are things like stock and cash in the bank.

Liabilities also have different guises: 'long-term' and 'current'. Money not due to be repaid in the next year is considered to be a long-term liability. Money due within the year is a current liability.

Remember companies go bust because they run out of money, not because they can't sell their products or services.

Take a second to divide current assets by current liabilities. This is called the liquidity ratio – anything less than one and your company is facing a cash crunch.

Better still, take current assets and remove the value of stock and inventory, which can be difficult to shift in an emergency, then divide that figure by current liabilities.

This is known as the acid test or quick ratio, and is considered to be one of the best crude tests of a company's short term viability.

WHAT IF YOU WANT TO PUT MORE MONEY INTO THE MARKETS?

IF YOU ALREADY have an emergency cash pot and money left over to invest then now might be an attractive time to invest in stocks, although no-one knows if markets will go up or whether we're going to see another big spike downwards.

Canaccord's Perera says: 'If you're sitting on uninvested cash, now is a good time to buy. The markets might fall further, but you want to be in on it for the upside. Once they are on the up, the likelihood is that they will rocket.'

If you want to start investing or put more money into an investment portfolio there are some things to consider. One is regular investment which could have a number of advantages in the current environment. Here you would invest a set amount in the same investment each month, typically with lower commission charges on these trades than you would pay for a lump sum trade.

Regular investment ensures you are invested in the market no matter what direction it is moving in and you avoid taking emotional investment decisions.

When markets are falling it is easy to let emotions take over, because you might be nervous and reluctant to put money into shares. In the short-term this might protect you from losses but you could also miss out on returns when stocks rebound. By investing on a monthly basis you will be well positioned for a recovery when it comes.

> **If you're sitting on uninvested cash, now is a good time to buy. The markets might fall further, but you want to be in on it for the upside. Once they are on the up, the likelihood is that they will rocket.**
>
> **MICHEL PERERA, CANACCORD GENUITY WEALTH MANAGEMENT**

During periods of volatility, investing regularly could also see you benefit from an effect known as 'pound cost averaging'. This term refers to the way regular investment can iron out the ups and downs in the price of a fund or share over time, as you essentially end up buying a greater number of shares when the price is lower.

There is nothing to stop you from also investing lump sums alongside your regular investments as part of a balanced strategy.

RESEARCHING IDEAS IN THE CURRENT CLIMATE

The above helps answer *how* you might invest; what you should invest in is a more complicated question.

Shares will continue to provide a range of investment ideas in the coming months. Some of the key criteria we will be applying include:

- Does the business have a sound balance sheet?
- Does it convert earnings into free cash flow?
- Is it well adapted or can it adapt to a post-coronavirus world with moves towards buying services and goods online accelerated, likely greater adoption of home working and increased levels of automation?
- Does it have strong barriers to entry?
- If it is reliant on a supply chain, how robust is it?
- Does it have good governance and high levels of transparency in its communication with the market?

You might have to accept that your investments won't go up instantly or in a straight line. They could even fall further. As the well-regarded fund manager Nick Train says: 'If you are a partial owner of something exceptional or valuable then you give yourself the chance of good things happening to your portfolio, although you can never be sure exactly when.'

HOW DIFFERENT INDUSTRIES COULD SHAPE UP IN THE CORONAVIRUS CRISIS

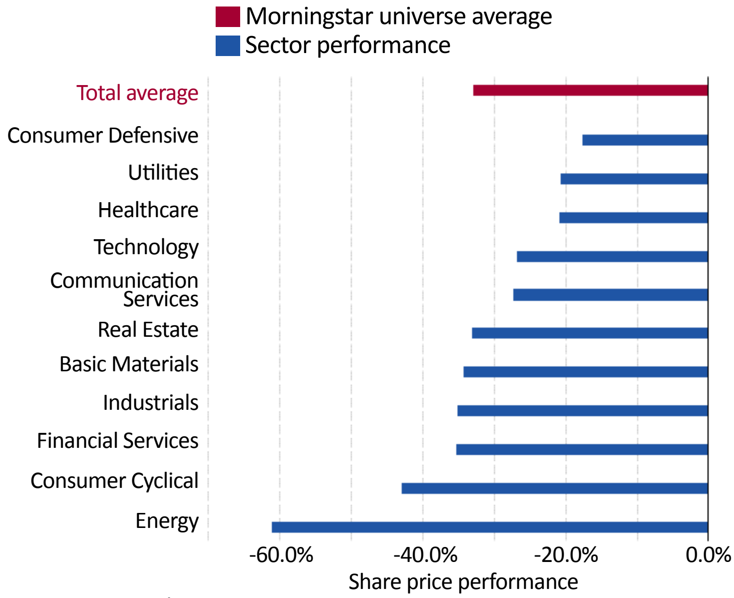
IN A REPORT on the market in the wake of the coronavirus outbreak, Morningstar has identified some key sensitivities and trends facing different sectors.

TELECOMS

It believes opportunities may have emerged in the telecoms sector given its relatively modest exposure to the effects of the crisis.

HEALTHCARE

Demand for healthcare products is expected to remain robust given inelastic demand and providers of streaming services are expected to see some upsurge in demand with consumers tempted to try new offerings.



2 Jan to 19 March 2020. Source: Morningstar

BANKING

A repeat of the financial crisis for the banking sector is not expected. It says: 'Banks were hurt to an unusual degree during the global financial crisis, but there were systemic issues at play and capital levels were too low, causing the need for equity capital raises.

'Once a bank gets to a point of requiring capital infusions, permanent impairment of capital is occurring for shareholders. Currently, we don't see a systemic financial crisis brewing, and as such, we don't expect permanent impairments of capital to occur.'

TRAVEL

On the much more heavily impacted side, a recovery in the airline sector is expected later in the year. Morningstar comments: 'We continue to believe that once coronavirus fears fade, air traffic will improve and could overshoot normalised demand for a period as pent-up demand (for example, postponed family vacations or business conferences) is released.

'Despite weak short-term earnings, we anticipate the travel downturn to be short-lived and firms with strong balance sheets to be able to weather the storm.'

WHERE TO FIND INCOME WHEN DIVIDENDS ARE BEING CUT

WITH SO MANY companies cutting dividends as they respond to the coronavirus, investors in many stocks will have to start looking elsewhere for income.

Income funds, which at least benefit from diversification, will also be heavily affected and are almost certain to deliver lower dividends in 2020.

THE VIEW FROM EVENLODE INCOME

Hugh Yarrow, who manages **TB Evenlode Income (BD0B7D5)**, says: 'Though a resilient portfolio, I think it's important to manage expectations on the short-term dividend stream for the fund (i.e. over the next year).

'(Our) portfolio has entered this crisis with a healthy level of free cash flow cover relative to dividends, some very strong balance sheets across the portfolio and a bedrock of repeat-purchase business models. This should provide a strong underpin over the coming months.'

He adds: 'The Evenlode Income portfolio won't be entirely immune from pressure on cash flow and dividends given the extremity of the current situation... As a result, it may well be (unless this crisis begins to resolve itself relatively quickly in the next few weeks) that the fund's dividend stream falls somewhat over the coming year.'

> **The Evenlode Income portfolio won't be entirely immune from pressure on cash flow and dividends given the extremity of the current situation...**
>
> **HUGH YARROW**
> **TB EVENLODE INCOME**

THE VIEW FROM ARTEMIS INCOME

Adrian Frost, co-manager of **Artemis Income (B2PLJH1)**, says that although the prospect of lower dividends is worrying, his portfolio generates its income from a broad spread of companies.

'Much of our time has been spent – and will continue to be spent – on the most affected parts of the portfolio and in understanding those companies' ability to weather the crisis. The fund's positioning and composition has changed little through this period other than through the impact of share price moves. Our only move of note (prior to the sell-off) was to further reduce our already low weighting to the oil and gas sector.'

ADVANTAGES OF INVESTMENT TRUSTS

In theory, investment trusts should be better placed as they can hold back 15% of their dividend income to create a cash buffer to cover lean periods.

The table shows the income funds who can cover their dividends for the longest period in terms of years. However, times don't get much leaner than this and the current period may test the ability of trusts to sustain current levels of payments, even though a large number of trusts have long track records of increasing the dividend.

THE VIEW FROM HENDERSON HIGH INCOME TRUST

David Smith, who steers the **Henderson High Income Trust (HHI)**, says: 'The trust will clearly not be immune to dividend cuts but having a well-diversified portfolio and a bias towards quality companies with the addition of owning some bonds will help limit the impact.

'Also the trust's revenue reserves, which have been built up over the last few years, has the potential to provide further support to our own dividend.

'In the recent market sell-off we have been adding to companies that have a more defensive profile that will be impacted less by government containment measures thereby sustaining dividend payments.'

Its portfolio holdings include **British American Tobacco (BATS)**, **Reckitt Benckiser (RB.)**, **Bunzl (BNZL)** and French pharmaceutical company Sanofi.

He adds: 'We have also utilised our ability to go overseas and initiated new positions in businesses such as Coca-Cola and the Finnish telecoms company Elisa, where we think dividends will be sustainable.'

INFRASTRUCTURE AND MULTI-ASSET FUNDS

Infrastructure funds should benefit from predictable long-term revenue streams to underpin

dividends. For example, **GCP Infrastructure Investments (GCP)**, which invests in a range of UK infrastructure projects, is currently trading at a 4.3% discount to net asset value.

Investors might also want to look at multi-asset funds as these invest in a range of different asset classes and not just shares. The range includes **Premier Multi-Asset Monthly Income (B7GGPC7)** which invests in a range of funds including the aforementioned Evenlode Income as part of its equities exposure, as well as ones that invest in corporate bonds, property, emerging markets debt, overseas equities and cash.

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Evenlode Income referenced in this article.

High-yielding UK investments trusts with cash buffers to cover dividends for a least a year

Trust	Dividend yield	Dividend cover (years)
Aberdeen Standard Equity Income	6.1%	1.2
Chelverton UK Dividend	6.0%	2.0
BMO UK High Income	5.9%	1.4
Edinburgh Investment	5.4%	1.7
Shires Income	5.2%	1.7
JP Morgan Elect Managed Income	5.0%	1.3
Lowland	4.9%	1.1
Schroder Income Growth	4.8%	1.4
Diverse Income Trust	4.4%	1.3
Temple Bar	4.3%	1.1

Source: AIC. Data as at 28 February 2020. Please note the quoted yields are based on historic payments.

THIS IS AN ADVERTORIAL

Allianz Global Investors

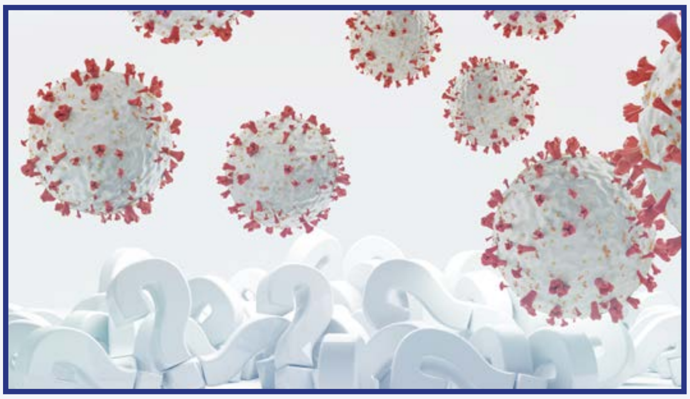
Comparing to past market crises

Simon Gergel, manager of The Merchants Trust, recalls his experiences

I had only been working in the City for a month, when the 1987 market crash happened. However, that was a relatively short-lived affair. It came after a period of very strong market returns, when valuations were elevated. Although the FTSE100 index fell by nearly 30% in Q4 1987, it was actually up for the year and the market decline had no major economic impact. The 2000 Technology, Media and Telecommunications (TMT) collapse, also followed a period of exceptional market returns, albeit one confined largely to certain sectors of the stock market. Many value investors had thought that a correction of this sort was long overdue. Whilst there was some economic impact, it did not lead to a major economic dislocation, at least in the UK.

The financial crisis of 2007/2008 was very different. Stock markets were coming from a high level in 2007, but the main issue was not equity valuations, rather it was the economic shock from the credit crisis. Only a few people really understood the complex financial products that had proliferated in the banking industry. As these unravelled there was massive disruption. At times there was huge uncertainty about what was really going on in the banking and credit markets. As the cause of the problems was so opaque, it was difficult to ascertain what actions would be needed to address the problems, and how effective these would be.

There are parallels in the current situation, although not necessarily in terms of severity. There is not a credit crunch, or over-leverage in the banking sector, but there is huge uncertainty. The cause is easier to see, but how quickly and how far the virus spreads, and how much human and economic damage it does, are very hard to predict. We have already seen millions of people facing severe restrictions on their movement, first in China and Italy and then spreading rapidly to the rest of Europe and around the globe as governments fight to contain the impact of Covid-19 on their countries' populations. We can see the immediate impact on certain industries like travel and commodities, but the economic ramifications could be far broader.



For investors, it is important to try to understand how companies might be affected by the current situation. It is always important to look at balance sheets, to see which companies can survive a temporary drop in activity and profits. It is also critical to separate short term impacts on industries and businesses (even if they may go on for quite a while) and longer term impacts. Will people change their habits with regard to flying? Will companies change their just-in-time supply chain management processes? These are some of the questions that investors should be thinking about to understand the long-term impact of this virus.

To discover more about The Merchants Trust, visit www.merchantstrust.co.uk where you can register for regular updates.

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The Merchants Trust is managed by Simon Gergel who is head of the UK Equity team at AllianzGI and specialises in managing UK equity income portfolios. He is supported by a dedicated team of fund managers and analysts.

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How are companies coping with the strain on their finances?

We look at the different measures firms are taking to avoid financial distress during the crisis

One of the most striking features of the current crisis, from a stock market perspective, is how sharply and suddenly UK firms have cut their dividends in response to the drop in demand for their goods or services.

In March alone, UK companies cancelled or postponed more than £4bn in forecast dividend payments. Both the speed and the size of the cuts are unprecedented.

Last week, housebuilders **Persimmon (PSN)** and **Taylor Wimpey (TW.)** cancelled or postponed a combined £1.2bn of dividends as they shut their construction sites and the Government urged people not to move house.

Many share buybacks have also been stopped, such as in the case of publishing group **Pearson (PSON)**, flooring firm **Headlam (HEAD)** and travel outlet retailer **SSP Group (SSPG)**.

Taylor Wimpey has had to shut construction sites

REDUCED REVENUES

In order to continue functioning through the crisis, however, firms are having to do more than just postpone or cancel their dividends and buybacks.

Firms which have been hit by the travel ban and the restrictions on freedom of movement are in some cases seeing no revenue at all coming in the door.

In the case of the high street retailers, those without an internet offering such as **Associated British Foods' (ABF)** Primark, and even those with an online offering which has now had to shut such as **Next (NXT)**, could be facing months of famine.

Fortunately, both firms have strong business models and balance sheets and should be able to weather the storm, and Government help is available including relief from business rates. For weaker operators though, the future looks bleak even with Government help.

SHARING THE BURDEN

For many firms, their biggest cost is their employees. Even firms with low fixed costs compared to their revenues, such as furnishings group **Victoria (VCP:AIM)**, have warned staff that 'there is no reasonable scenario where there will be no impact on employment'.

Some firms are introducing short-term working or asking employees to take annual leave. However, in an unusual show of solidarity, many firms including Victoria have introduced pay cuts of 20% or more for senior and middle management in order

Rentokil has scrapped its bonus scheme

to 'share the financial burden' and minimise the impact of the shutdown on their employees.

As well as cutting board and senior management pay, pest control firm **Rentokil (RTO)** has scrapped its bonus scheme and the current long-term incentive plan grant has been postponed.

Most firms have frozen pay increases and recruitment – except for critical hires to meet contract commitments – and are chasing Government-backed assistance measures like the Job Retention Scheme, to help staff affected by the lockdown through the crisis so that when demand recovers they can get back up and running as quickly as possible.

SHIFTING THE BURDEN

Another high fixed cost for many firms is rent. Even before the crisis, many companies particularly in the retail sector were in talks with their landlords to reduce their rent charges.

Car accessories and bicycle retailer **Halfords (HFD)** and sofa seller **DFS (DFS)** have both said they are in discussions with their landlords regarding rent relief, with Halfords pursuing an immediate switch to monthly payments from quarterly.

Primark has taken more drastic action by withholding rent due on 110 UK leasehold properties in order to prompt 'urgent' conversations with its landlord over rental terms, according to trade journal *Retail Gazette*.

Other ways for firms to shift the burden is onto suppliers, by reducing the amount of goods they order or delaying orders. Primark and Halfords are among many companies who have cut orders, including for goods not for resale.

Many firms are also cutting variable costs such as advertising and marketing in order to conserve cash, which means media firms are seeing their revenues evaporate.

REINING IN GROWTH

As well as optimising their working capital by postponing purchases and cutting back on core spending where possible, companies are also reducing their non-essential spending including restructuring and growth plans.

DFS has deferred the opening on six new showrooms which it had planned to open this financial year, while SSP says its store-opening programme had 'ceased' altogether.

Electrical goods retailer **Dixons Carphone (DC.)** said it would reduce non-essential spending very significantly in the first half of its financial year, 'which would cause some delays to the transformation plans but will have no lasting impact on the long-term success of the business'.

As well as cancelling their dividends, most of the housebuilders have put the brakes on land purchases in order to conserve capital. Retirement home builder **McCarthy & Stone (MCS)** has halted new purchases while 'contractually committed land spend has been reviewed and minimised where possible'.

Finally, firms which have relied on acquisitions to help drive their sales growth, such as Rentokil, have had to pull the plug on plans to expand for the time being and hunker down until the crisis is over.

By **Ian Conway**
Senior Reporter

BlackRock.

ACTIVE INVESTING IN **EUROPEAN MARKETS**

BLACKROCK GREATER EUROPE INVESTMENT TRUST PLC

In spite of a lacklustre economy, Europe is home to some fantastic companies in growing markets that can build wealth for investors over the long term. On the BlackRock Greater Europe Investment Trust plc, we are on a mission to find them.

Stefan Gries
Co-Manager, BlackRock Greater Europe Investment 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.

European markets have long demanded an active approach. Markets have been stuck in a holding pattern for some time and investors have had to sift carefully to find the gems against an unsupportive economic backdrop. We see a number of factors in the market that can drive European equities higher, but still believe discernment is important.

Investors are warming up to Europe after a multi-year hiatus. They had been deterred by political tensions and weakening end markets, but with these pressures easing, they are looking to the region once again as a potential option for their ISA portfolio.

We believe it is important to pick the right companies. It is evident structural challenges remain in numerous markets within Europe. European car makers, for example, are facing a challenge from the transition to electric vehicles. However, there are plenty of companies in the region exposed to long-term growth themes but with superior market positions and products, brands or contract structures. This allows for a greater sustainability of returns.

CHERRY PICKING

But how do we find them? Our aim is to look across our investable universe of over 2000 companies and to identify the 35-40 most compelling investment cases Europe has to offer. We want to find assets that we can own for the next three to five years, so we look at companies' end markets, their income streams and how they can generate returns for our investors. All businesses we own should be well-run with a clearly articulated strategy, high returns on capital, strong cash

flow and with opportunities to invest at attractive returns.

We believe this is how companies create wealth over time. In our mind, there are three key ingredients to creating value for shareholders - high returns, growth and time - with the latter meaning that as long-term investors we give management teams the time required to create value for shareholders.

Finding these companies is not easy. The breadth of our research platform helps to go deeper with our analysis. Our European team is one of the best-resourced in the market with a huge amount of experience allowing us to carefully pick stocks across the entire market spectrum. This is important in uncovering opportunities that others might have missed. On top of that, we have the rest of the fundamental equity platform at BlackRock that allows us to exchange views and get insights from colleagues in Asia, Emerging Markets, the UK and Natural Resources, as well as from colleagues across asset classes.

LOOKING LONG TERM

The investment trust has a number of advantages, as we see it. It supports our high conviction approach. The closed-end structure means we can go further down the market cap spectrum; we do not have to buy and sell in response to inflows and outflows from the Fund and therefore are not swayed by short-term market movements. We can own assets through the cycle. This is particularly important for our Emerging European exposure, where companies may be smaller and less liquid.

Equally, it is clear we cannot run client portfolios without thinking about environmental, social and governance (ESG) and sustainability. We have an independent team of 45 people whose only job is to hold boards accountable for implementing appropriate governance in the businesses we own. Equally, we have a team of 28 professionals who are part

BlackRock

of BLK Sustainable Investing - a dedicated team reporting on the relationship between sustainability issues, risk and long-term financial performance. ESG is fully integrated in our research process today.

In our view, the Trust offers shareholders an opportunity to participate in wealth creation of some of Europe's finest businesses, a natural choice for a long-term ISA portfolio. We believe these companies can grow their earnings over the long term, irrespective of the overall market environment. With global asset allocators significantly underweight the region, any small change in fortunes could prompt a significant change in performance for European companies.

For more information on this Trust and how to access the opportunities presented by European markets, please visit **www.blackrock.com/uk/brge**

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

TO INVEST IN THIS TRUST CLICK HERE

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

Emerging Europe risk: Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore, the value of these investments may be unpredictable and subject to greater variation.

Liquidity risk: The Trust's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Fund may not be able to realise the investment at the latest market price or at a price considered fair.

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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RUSS MOULD
AJ Bell Investment Director

Five ways to spot a market bottom

How you can gauge whether the market sell-off has run its course and a recovery is being set up

Late March's sharp three-day rally is inevitably begging the question as to whether markets are nearing or are even past the bottom after the savage sell-off that dates back to 24 February.

This column still has its doubts, not least because history suggests market downturns are usually littered with rallies that turn out to be no more than vicious bear-market traps.

That said, the sudden nature of the downturn means that it is tempting to think the rebound could be equally sharp.

The price collapse of February and March, coupled with a surge in the VIX, or 'fear index', to new highs implies that sentiment has already switched from greed to fear.

That is usually a good starting point for some contrarian value-hunting but there are other signals which investors can use if they are looking for signs that we may be coming through the worst.

FIVE SIGNS

The first thing markets want to see is a slowdown in the number of new COVID-19 cases on a global basis (and not just for narrow, self-interested reasons but more importantly simply for the greater good).

A slowdown and then a peak in new cases could give markets more of a chance to work out the duration and depth of the damage done to corporate earnings and cash flows.

In turn markets might be able to assess whether the share price falls seen so far adequately reflect this or not, even if this again pales next to the importance of individuals' health.

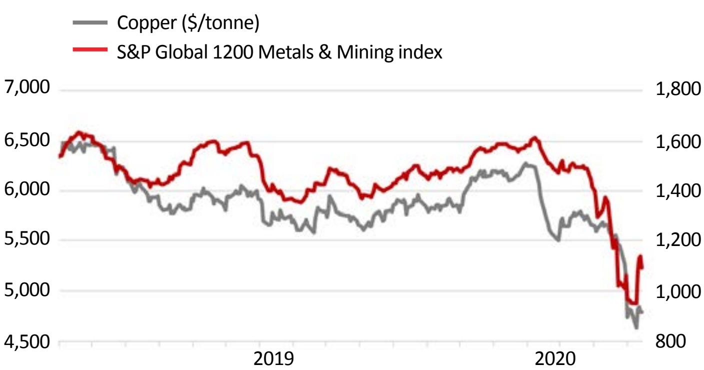
Tracking the momentum in new cases via the media is one way but another might be to look at Italy. The country remains, for the moment at least, in the eye of the storm so far as Europe is concerned and all eyes are on how quickly the outbreak can be contained.

It is intriguing to note how Milan's MIB-30 index

MILAN'S MIB-30 BOTTOMED MORE THAN THREE WEEKS AGO

Source: Refinitiv data

COPPER PRICE LOOKS DULL INDEED



Source: Refinitiv data

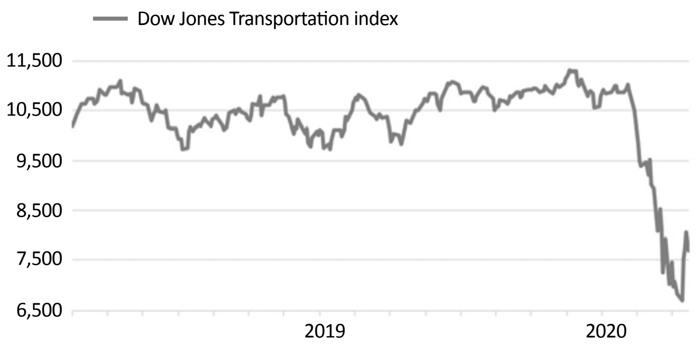
RUSS MOULD
AJ Bell Investment Director

hit a bottom on 12 March and has since advanced by 13% in a fairly orderly fashion. This could just be wishful thinking but it could be something so this is a trend to note.

More tangibly, it would be nice to see some improvement in the price of copper and for that matter other industrial metals such as aluminium. Copper's ubiquity, as well as its malleability and conductivity, means it is used heavily in industry so a rebound in activity should show up quickly. Even though the global mining sector is trying to forge a rally, the bad news is that copper is still stuck well below $5,000 a tonne.

Transport stocks are also a good barometer. If goods are selling, then shelves need to be restocked and those products have to be shipped. If they are not selling then freight volumes suffer.

TRANSPORT STOCKS ARE YET TO GET BACK ON TRACK

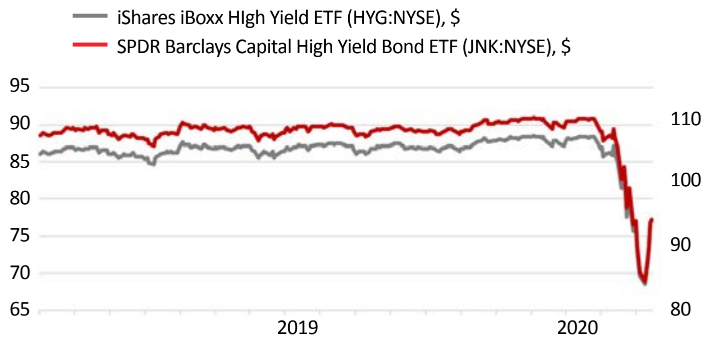


Source: Refinitiv data

As this column pointed out several times last year, transport stocks have lagged for a while. Last week's rally is a start but the transport stocks have yet to prove they have broken out of reverse gear. It would be a welcome sign if they do.

Another good guide to both economic activity but also financial markets' appetite for risk are junk bonds. The risks involved mean they trade quite like equity. And the Federal Reserve is currently barred from buying them so you could argue that junk bonds are not a rigged market, unlike government and investment-grade bonds, when central bank interference means we have little or no price discovery.

JUNK BONDS ARE STILL TAKING FRIGHT



Source: Refinitiv data

Junk bonds can be tracked quickly and easy – for free – via the price of two US-quoted exchange-traded funds, iShares iBoxx $ High Yield Corporate Bond and SPDR Barclays Capital High Yield Bond ETF, which glory in the respective tickers HYG and JNK.

Both are trying to recover lost ground. If they can do so under their own steam, without central bank interference, that could perhaps be a sign that markets are starting to think we are coming out of the other side of the crisis.

Once upward momentum is established in any or all of these charts, investors need to see a break in the classic bear market trend of a series of lower highs and lower lows.

Failure to make, or hold, a new peak can often see markets subside to a new trough as they grind lower. Applying that maxim to the FTSE 100, the index ideally needs to get back to 9 March's 5,966 threshold before then making an assault on 6 March's 6,463.

SIXTH SENSE

Perhaps the most reliable sign of a market bottom is the least tangible of all. This is this author's fifth major bear market, after 1990-92, 1998, 2000-03 and 2007-09. With the benefit of hindsight, the biggest buy signal of all was the absence of people asking whether it was time to buy, as this signified total capitulation.

Investors can use their own judgement as to whether we are at the point where the towels are being throw in or not.

How fund managers are reacting to the coronavirus crisis

We talk to the brains behind Mid Wynd and Scottish Investment Trust

Just as retail investors are being forced to deal with significant disruption to the markets, so too professional fund managers are having to react to the new realities created by the coronavirus outbreak.

In this article *Shares* talks to the people at the helm of two popular investment trusts to get some insight into how they are coping with the current volatility.

With its focus on 'safety first' and running a resilient portfolio, **Mid Wynd International Investment Trust (MWY)**, has been one of the better performers in the global equity arena during the coronavirus crisis.

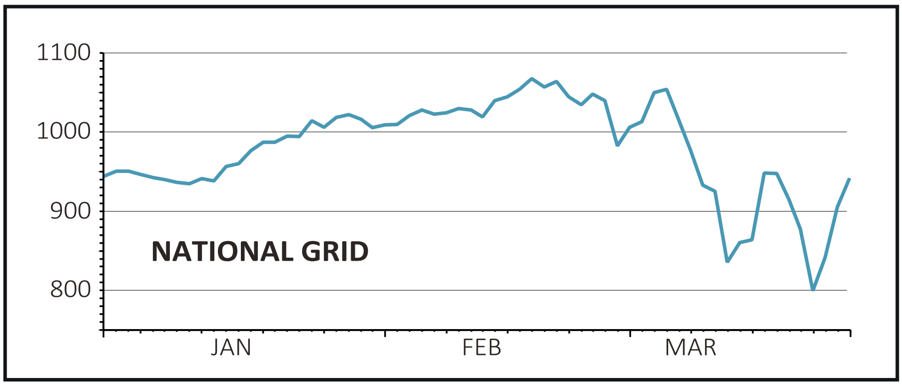
One of *Shares'* running *Great Ideas* selections, from the start of the year to the market close on 25 March, Mid Wynd shares were down 9.7% against a fall of 15.9% in the Morningstar Global Equity sector, according to data from the Association of Investment Companies (AIC). The trust's net asset value (NAV) fell by 10.5%.

Managed by the Artemis Global Select team of fund managers, Mid Wynd invests across the globe using a thematic approach. Among the long-term themes it invests in are online services, automation, high-quality assets, healthcare and the move towards a low-carbon future.

BENEFITS OF DIVERSIFICATION

In terms of the portfolio, the managers try to keep a balance between 'quality growth' stocks, which can deliver predictable profit growth but tend to trade at a premium to the rest of the market, and 'defensive' asset-backed stocks which typically trade on lower multiples.

This split helped performance during February thanks to holdings in 'defensive' utility companies such as **National Grid (GN.)** and Iberdrola, which thematically encompass both the move towards a lower-carbon economy and the need for high-quality real assets. Although the trust doesn't focus on income, the fact that both stocks carry attractive dividend



yields is a bonus.

Due to the managers' conviction that equity markets were highly-rated going into the crisis, the trust had a sizeable cash position which has helped it weather some of the sell-off in stocks. With governments and central banks around the world launching unprecedented stimulus and aid measures, the team is now putting cash to work buying high-quality, resilient stocks at deeply discounted prices.

US EXPOSURE REDUCED

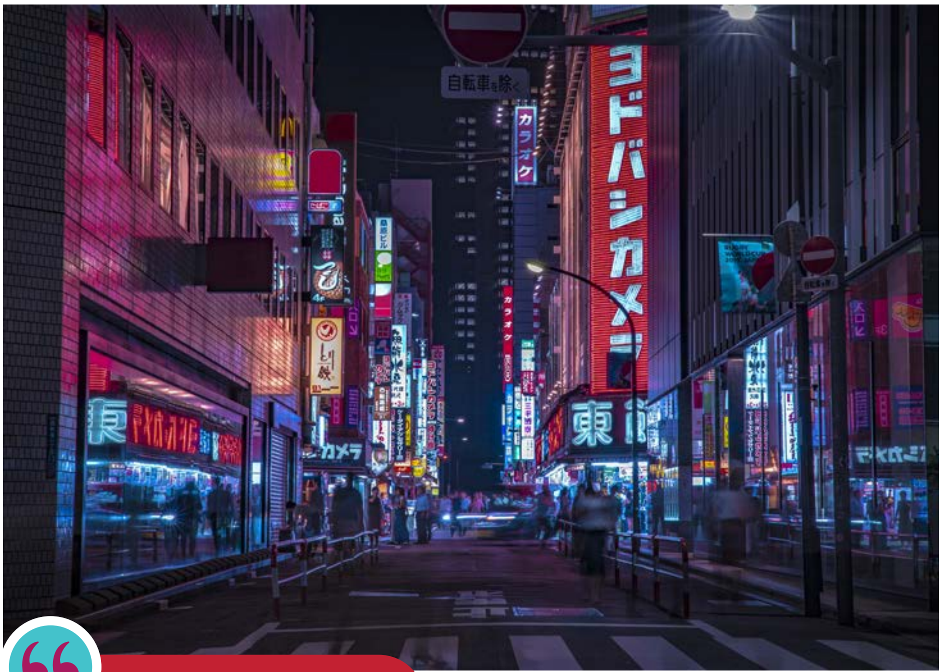
As part of its strategy the trust cut its US exposure from over 56% to below 50% by selling out of banks, railways and other sectors with direct exposure to the US economy.

According to manager Simon Edelsten, 'The US is only now going into measures which will slow activity while some of Asia is emerging from those measures.'

The fact that US citizens are not used to the government telling them how to live – and are more anxious about the economic and financial costs of the virus than the potential health risks – means the crisis could last well into the summer, creating a recession.

Instead the team has increased its exposure to Asian markets, notably Japan which has risen from around 12% of the portfolio to 17% with the addition of automation and telecoms stocks such as Hoya and Nippon Telegraph.

'Japan has tackled the virus well because its society is used to natural disasters and to taking orders from the government,' says Edelsten.



Japan has tackled the virus well because its society is used to natural disasters and to taking orders from the government

SIMON EDELSTEN
MID WYND

The trust's exposure to China and other Asian markets has also risen with investments such as chipmaker Taiwan Semiconductor and telephone mast operator China Tower, which is a play on the roll-out of 5G technology.

'By switching money out of the US, some of the valuation risk in the portfolio has been reduced,' adds Edelsten. The trust has been able to buy high-quality non-US stocks with strong balance sheets at low multiples, thereby giving it more upside potential should markets mount a concerted rally.

Longer-term, as the global economic demand recovers and factories have to ramp up supply, Edelsten expects the trust's automation and technology holdings to do particularly well.

RADICAL CHANGES

Edelsten's counterpart at the £475m **Scottish Investment Trust (SCIN)**, Alasdair McKinnon made radical changes to his portfolio in early February as supply chain issues across Hubei province started to become apparent.

While the market seemed oblivious to the gathering storm clouds amid the virus reaching Italy, McKinnon and his team were busily changing the shape of the trust's portfolio which resulted in making as many changes to the fund in a couple of weeks as they would normally make in a whole year.

The team debated what the lockdown in China meant for the rest of the world. Their sense was that if such a scenario happened elsewhere, earnings forecasts couldn't be relied upon.

Without any idea of likely near-term cash flows, it is nigh on impossible to value companies whose earnings visibility isn't that great to begin with, what natural contrarian McKinnon calls his 'Ugly Ducklings'. These are 'out of favour' companies whose near-term outlook is foggy at best.

Before February the fund had a 60% to 70% weighting in these types of businesses. In less than two weeks, the weighting was shredded to 40% with the remainder in what the team considers to be better quality companies, with 'much greater earnings visibility'.

Out went US retailers Target, Gap and Macy's as well as UK retailer **Marks & Spencer (MKS)**. Holdings in banks were reduced with sales in **Royal Bank of Scotland (RBS)**, French bank BNP and Dutch insurer ING.

STABLE AND DEFENSIVE

In their place McKinnon populated the portfolio with companies whose revenues were perceived to be relatively insulated from the general economy and where cash generation was robust. The move was more about survival than any other consideration.

New purchases included Japan Tobacco, which was preferred over UK equivalents **Imperial Brands (IMB) and British American Tobacco (BATS)** because it isn't as heavily indebted.

UK utilities **Severn Trent (SVN)** and **National Grid (NG.)** were added to the portfolio as well as US firms Duke Energy and Dominion. US Healthcare giant Gilead Sciences was another addition as well as adding to the position in Pfizer.

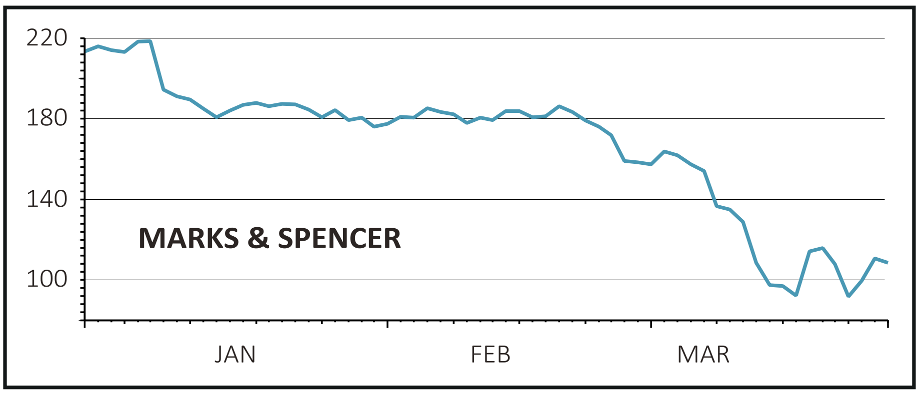
The fund's weight in gold miners was increased, adding to Newmont, Barrick Gold and Newcrest Mining, and collectively they now represent a significant 25% of the portfolio.

The team's rationale was that these firms are more disciplined and efficient operators than in the past.

McKinnon believes the stimulus measures seen so far will go some way towards mitigating the economic fall-out from the pandemic. If those actions are enough to generate a sharp v-shaped recovery, deep-value cyclicals will probably perform the best.

However, that prospect is someway off and for now the fund manager is more comfortable sticking to his defensive posture.

According to Morningstar data, over the last month the trust has outperformed its benchmark, with the NAV down 13.8% against the FTSE World index which is down 15.1%. However, over three years the fund has delivered an average annual return of minus 1.1% against plus 3.5% for the benchmark.



By **Martin Gamble** and **Ian Conway**

How have technology funds performed this year?

Cloud, software-as-a-service and digital transformation will continue to be important themes in the tech space

Most investors tend to view the technology space as high growth AND high risk, yet performance data of tech funds shows an underappreciated resilience during the coronavirus sell-off.

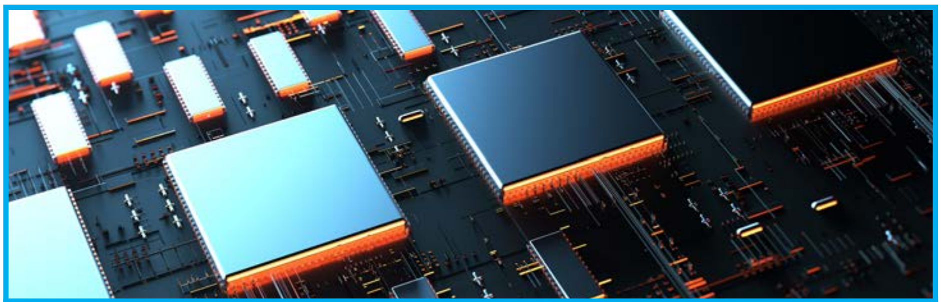
That fund values have fallen in absolute terms is understandable given the widespread sell-off in global stock markets, yet relative performance has in many cases been somewhat encouraging.

For example, **T Rowe Price Global Technology Equity (BD446KO)** has fallen by 17.9% over the past month, yet that is not as bad as the 24% fall of global shares, based on the MSCI World index.

The fund, run by US-based Alan Tu, takes stakes in the most dominant and super cash generating companies the world has to offer. Chinese digital commerce company Alibaba is currently its biggest single stake.

More than half of the technology funds available to UK retail investors have declined by less than the global share benchmark since late February, with half a dozen funds and investment trusts reporting declines of less than 20%.

This tallies with the relative performance of the **iShares Expanded Tech-Software ETF (IGV)**, seen as a tech sector benchmark by many, versus the S&P 500.



HOW HAVE TECH FUNDS AND INVESTMENT TRUSTS PERFORMED THIS YEAR?

Fund/Trust	1 month %	3 month %
T. Rowe Price Global Technology Equity	-17.9	-9.1
Wellington Asia Technology	-14.1	-14.0
Aberdeen Standard Technology Equity	-22.0	-14.1
Herald Worldwide Technology	-18.6	-14.2
Polar Capital Automation & Artificial Intelligence	-18.9	-17.2
Framlington Robotech	-18.8	-17.9
MFM Technology	-28.7	-18.4
Polar Capital Technology Trust	-25.8	-21.3
Vontobel Clean Technology	-23.2	-21.6
Allianz Technology Trust	-33.0	-22.0
Herald Investment Trust	-34.9	-35.1
Blue Star Capital	-40.0	-42.3
MSCI World	-24.0	-22.4

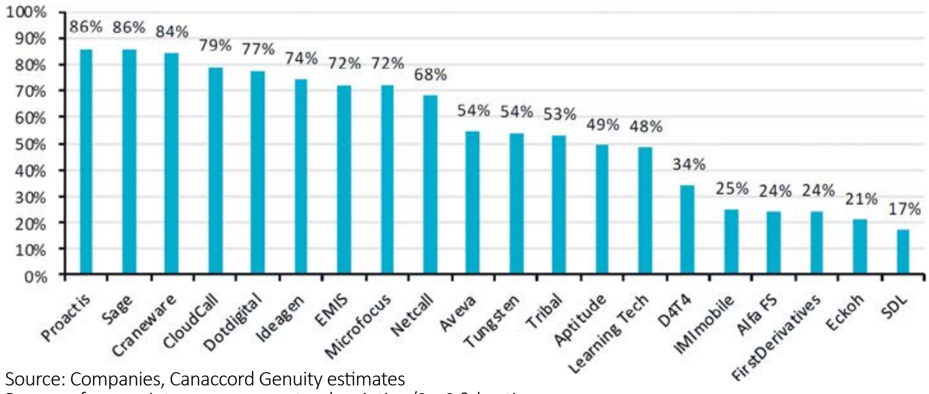
Source: AJ Bell

'Software stocks have pulled back, but the 14% fall of the IGV ETF vs the S&P's 23% decline year-to-date suggests large cap software remains relatively attractive for investors,' says investment bank UBS.

This is eye opening considering these tech funds own stakes in some of the biggest tech firms, and companies in general, in the world. They include names like Apple, Amazon, Microsoft and Google parent Alphabet, which have declined between 20% and 26% since the sell-off began.

Facebook, owned by both the

TECH STOCKS: % OF REVENUES CONTRACTUALLY RECURRING



Source: Companies, Canaccord Genuity estimates
Revenue from maintenance, support, subscription/SaaS & hosting

T Rowe Price technology fund and the **Polar Capital Technology Trust (PCT)**, is the world's fifth largest listed company and has sunk 28% since February.

Polar Capital Technology Trust is run by the highly respected manager Ben Rogoff. While the trust's strategy sees it remain reasonably closely knitted to its benchmark holdings, such as Microsoft, Apple and Alphabet, he is also a keen supporter of tech firms that have emerged from the Far East, owning stakes in Alibaba, TSMC and Tencent, the social network and gaming firm.

TOP TECH AT A DISCOUNT

The relative robustness of the tech sector has got many fund managers and equity analysts excited about the opportunity to buy stock in dominant, cash-rich, software giants at relatively discounted valuations, particularly cloud enablers and suppliers of subscription software, or software-as-a-service (SaaS).

Cloud, SaaS applications and wider digital transformation are already widely seen as structural shifts for most businesses and public sector organisations thanks to the operational and cost flexibility. This allows many people to work relatively seamlessly from home during periods of self-quarantine or area-wide lockdown, such as being seen today in the UK and elsewhere.

'We share the view that the future of IT is multi-cloud and hybrid,' says Stifel technology analyst George O'Connor. 'We also believe that pragmatic companies will, post the lockdown period, never waste a good crisis and begin to plan for the post crisis world.'

The theme is also recognised by Tom Slater, one of the joint managers of the **Scottish Mortgage Investment Trust (SMT)**, one of the most popular growth funds with UK retail investors.

'No matter where a business is based, the attractions of the cloud are apparent,' he says. 'The likely cost savings are appealing but the value from the business intelligence it creates is even more significant.

'This is where artificial intelligence (AI) comes into play as it excels when making predictions from large datasets and ultimately, the cloud is how many companies are going to make use of AI.'

SAAS UNDERPINNING FORECASTS

UBS estimates that the growing adoption of subscription models means more than 80% of 2020 full year revenue forecasts for most SaaS names is either already booked or will come from renewals set to close during the year.

The bank admits that a growth slowdown is likely in 2021 but suggest that this leaves most tech businesses with time to get costs under control and protect profitability.

'Even in our severe recession scenario with new business falling 30% year-on-year and churn rates ticking higher, we estimate 2021 revenue would still come in only around 11% below current forecasts, with profitability targets potentially still intact,' says UBS.

Customer relationship management software specialist Salesforce is a UBS key stock pick, with the bank's analysts also favouring ServiceNow and Microsoft, owned by several UK funds including the aforementioned ones from T Rowe Price and Polar Capital.

Analysts at broker Canaccord Genuity agree with the attractions of the subscriptions theme and highlight **Kainos (KNOS)** and **Ideagen (IDEA:AIM)** as among the stocks to buy.

DISCLAIMER – The author owns shares in Scottish Mortgage.

By **Steven Frazer**
News Editor

Saving for retirement: when to use a Lifetime ISA or a pension

We look at the differences between the two accounts and when one might be better than the other

As we near the third anniversary of the Lifetime ISA being launched, and the end of the tax year, many people will be wondering whether they should be using a pension or a Lifetime ISA to save for retirement. It depends on your circumstances as we now explain.

THE BASICS:

LIFETIME ISA

You can save up to £4,000 a year into a Lifetime ISA, with the Government adding 25% to anything you put in up to the age of 50, meaning a maximum of £1,000 free Government money each year. After 50 you can keep adding to the account but you won't get the Government top-up.

To open one you need to be aged between 18 and 39, and anything you put in counts towards your £20,000 annual ISA allowance.

The only way you can withdraw money without a penalty charge is if you are buying your first property (subject to certain restrictions), you've reached age 60 or you are terminally ill. Any other reason for withdrawal will be subject to a 25% penalty, taken off your withdrawal amount.

Like a normal ISA, any money in the account grows free of tax and when you take out the money you pay no income or capital gains tax on any withdrawals.

PENSION

Most people can contribute up to £40,000 a year into a pension, as long as this doesn't exceed their annual salary. There are some lower limits for very high earners and those who have already accessed their pension, but that only affects a small group of people.

The amount of Government boost you get to your pension depends on your rate of income tax. Everyone gets 20% relief on their contributions, but if you're a higher earner you can claim additional tax relief through your tax return.

The money is locked up until you reach the age of 55. At this point 25% of any withdrawals will be tax free, while the rest will be taxed at the income tax rate you pay at the time.

WHICH IS BETTER FOR YOU?

A lot of the answer to this question depends on your personal financial circumstances, but there are some general rules of thumb you can follow.

BASIC RATE TAXPAYERS

If you're a basic rate taxpayer, you might find the Lifetime ISA a potentially attractive retirement saving option. You'll receive the same bonus as a pension on contributions up to the £4,000 annual limit, while withdrawals are completely free of tax once you reach your 60th birthday.

Pensions, on the other hand, generally can't be touched until you reach age 55 and only 25% of the fund would be free of income tax.

What's more, while you will pay an exit penalty if you want to get your money out of the Lifetime ISA, at least you have the ability to access it should you hit hard times and need cash – which is not the case with your pension if you're younger than 55.

Age is a key factor. If you're already 40 or older then you can't open a Lifetime ISA account. And the Government won't give you that 25% top-up after age 50, so at that point you might be better switching to a pension.

Looking at the numbers, someone who pays in £4,000 a year from age 18 to 50 into either a Lifetime ISA or a SIPP (self-invested personal pension) will receive exactly the same amount of Government bonus (£32,000). If we assume 4% annual investment growth after charges, both will have built a fund worth £326,000.

Based on today's tax rates, someone who took an ad-hoc lump sum of £20,000 from their pension at age 60 would pay £500 in tax (assuming they had no other taxable earnings).

This is calculated as follows: 25% is tax free, so £5,000. The individual then has £12,500 personal allowance which is the amount of income they don't have to pay tax on. From the £20,000 pot, £17,500 is therefore tax free. Of the remaining £2,500, the basic rate taxpayer would pay 20% which is £500.

The same investor would pay no tax at all on their Lifetime ISA withdrawals.

The difference in tax paid expands as the withdrawals get bigger. If the entire fund was withdrawn at once – not an advisable retirement strategy in most cases – the pension investor would pay a whopping £95,025 in income tax.

This is calculated as follows: 25% of the £326,000 pot can be withdrawn tax free, equal to £81,500. On the remaining £244,500, the individual wouldn't get a personal allowance because their income is over £125,000. They would have to pay a mix of 20%, 40% and 45% tax at the different income brackets.

HIGH EARNERS

The way pension tax relief works means higher and additional-rate taxpayers should almost certainly use their pension as their main retirement savings option. As well as getting 20% tax relief (equivalent to a 25% Government bonus), the same as offered by a Lifetime ISA, higher rate taxpayers can claim an extra 20% through their tax return, while additional rate taxpayers can claim 25%.

So if an additional rate taxpayer paid £80 into a pension, an extra £20 would be added to it by HMRC and then they could claim back a further £25 directly from the taxman. This means it has cost them just £55 to get £100 in their pension, equating to a staggering 82% savings bonus.

PEOPLE WITH AN EMPLOYER PENSION

The golden rule is if you're going to get some form of contribution from your employer into your pension you should exhaust that first, as it's effectively free money that you wouldn't get if you open a Lifetime ISA and put your contributions into that wrapper.

This contribution from the employer is basically like a pay rise and the bonus from the Lifetime ISA won't match it – this is true even if you're a basic rate taxpayer.

However, if you want to contribute more to your retirement savings than your employer will match you could use a Lifetime ISA. For example, if your employer matches up to 5% of your pension contributions but you want to put 7% of your salary away you could put 5% into your workplace pension and get employer matching and put the rest in your Lifetime ISA assuming it didn't exceed the £4,000 annual contribution limit.

HIGH EARNERS AND THOSE WITH BIG PENSION POTS

People who earn over a certain level will see the amount they are able to contribute to their pension each year reduced. The exact rules are tricky, so read more here.

It means that if they've maxed out their annual pension contributions they could use a Lifetime ISA to bolster their retirement savings, as everyone qualifying for the wrapper gets the £4,000 annual Lifetime ISA limit – regardless of their earnings.

This is also an option for those people who have reached their pension lifetime allowance, which is £1,073,100 from 6 April. Individuals who still have spare cash to put away could use a Lifetime ISA to carry on saving for retirement.

Bear in mind that to use this option you'd have to be under the age of 40. You could open a Lifetime ISA now and use it later on.

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

What happens to pension contributions if I'm furloughed?

A lower amount of money would go into your retirement savings pot temporarily

I'm one of a number of employees at my firm who could be 'furloughed' for up to three months. I currently earn £50,000 and want to know what it'll mean for my workplace pension (I'm currently paying in the legal minimum under automatic enrolment).
Christopher

Tom Selby,
AJ Bell
Senior Analyst says:

As part of its emergency response to the Coronavirus pandemic, the Government has pledged to pay up to 80% of the salaries of workers who are temporarily 'furloughed', up to a maximum of £2,500 a month (equivalent to £30,000 a year).

Under the 'Coronavirus Job Retention Scheme', these employees will remain on the company payroll but will essentially be on leave during their furloughed period. The Government has confirmed the grants will also cover automatic enrolment pension contributions up to the statutory minimum.

At the moment, those who qualify for auto-enrolment will see a minimum of 8% of 'relevant earnings' paid into their workplace scheme. This comprises a 4% personal contribution, a 3% employer contribution and 1% in tax relief. 'Relevant earnings' for 2020/21 are all earnings between £6,240 and £50,000.

Where someone is furloughed, the Government has said it will front-up the cost of the employer contribution, although this will be based on the lower furloughed wages (rather than your previous higher wages) and the minimum automatic enrolment contribution.

How being furloughed could affect someone earning £50,000 in 2020/21 paying in the automatic enrolment minimum (8% of relevant earnings)

Salary	Monthly	Monthly relevant earnings for auto-enrolment	Monthly auto-enrolment contribution
£30,000	£2,500	£1,980	£158
Furlough pay	£2,000	£1,480	£118
£50,000	£4,167	£3,647	£292
Furlough pay	£2,500	£1,980	£158

Source: AJ Bell calculations

Someone earning £50,000 in 2020/21 and paying in at the auto-enrolment minimum would normally expect to see £292 per month paid into their company pension, while someone earning £30,000 and paying in the minimum would contribute £158 a month.

If both employees were furloughed under the Job Retention Scheme, the person who previously earned £50,000 would see their salary drop to £30,000 (equivalent to £2,500 a month) and their total pension contribution fall by £134 to £158 a month.

The person previously earning £30,000, meanwhile, would see a fall in their salary to 80% (£24,000) and therefore also a fall in their monthly contributions by £40 to £118.

While clearly any fall in the free money available from your employer through auto-enrolment isn't ideal, these are exceptional circumstances and these measures should be temporary.

Furthermore, in the context of saving for retirement – a process which takes decades – you should have plenty of time to make up for a few months of reduced contributions.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

Everything you need to know about investment funds

Funds, investment trusts and ETFs are the best places to start if you're new to investing

In the latest part of our first-time investor series, we explain the benefits of investing in funds, investment trusts and exchange-traded funds (ETFs).

There are thousands of funds on offer which provide access to an array of asset classes, geographic regions and investment styles ranging from growth and value to income.

This diverse universe of products is the best starting place for someone new to investing rather than individual company shares. That's because nearly all of them give you instant diversification.

Rather than buying one or two company shares yourself, a fund will give you access to a basket of many different companies – typically between 20 and 200 – and sometimes even other assets like property, bonds and commodities.

If something goes wrong with an individual company share you'll feel the pain in your portfolio. But if something went wrong with one of the companies in a fund's portfolio, it will have lots of other companies hopefully doing well to help cushion the blow.

ACTIVE VS PASSIVE FUNDS

Investors can purchase two main types of funds – active and passive. Active funds are run by a professional fund manager who selects the investments and aims to beat a benchmark index or outperform the broader stock market.

We all lead busy lives, so the ability to delegate the day-to-day running of your money to a professional fund manager, paid to ensure your wealth pot grows, is a major attraction.

High-profile examples of active funds include global large

INV VS ACC

WHEN PURCHASING investment funds, you'll often notice the use of the acronyms 'inc' or 'acc' after the name, which denote the different classes of funds.

An 'inc' or 'income' class pays out dividends directly into your investment account as cash, whereas an 'acc' or 'accumulation' class rolls up dividends and other forms of income and puts them back into the fund, with the effect of increasing the value of each unit or share held.

cap fund **Fundsmith Equity (B41YBW7)**, managed by veteran investor Terry Smith; **Fidelity Special Situations (B88V3X4)**, steered by value contrarian Alex Wright; and in the fixed income universe, the Ariel Bezalel-led **Jupiter Strategic Bond (B4T6SD5)**.

Passive or 'tracker' funds differ from active funds in that they mirror or track the performance of a benchmark or index such as the S&P 500 or FTSE 100. These typically have lower charges than active funds and are growing in popularity as investors seek the lowest cost option for their investments.

FUNDS VS INVESTMENT TRUSTS

The term investment fund is generally used to describe unit trusts and Oeics, which include the aforementioned Fundsmith, Fidelity and Jupiter funds.

A fund will create new units when someone invests money or it will cancel units when someone withdraws their cash, hence the term 'open-ended fund'.

Managers who run these funds have to deal with inflows and outflows of investor money, as well as deciding what to have in the portfolio.

In comparison, investment trusts fall under the category of 'closed-end fund'. They have a fixed number of shares in issue and investors wanting to get involved have to buy shares from another investor.

When an investor wants to get out, they sell their shares to someone else. This exchange means the fund manager doesn't have to manage any inflows and outflows of money and they can concentrate purely on running the portfolio.

The first trust, **F&C Investment Trust (FCIT)**, formerly Foreign & Colonial, was launched in 1868. Other well-known trusts include **Alliance Trust (ATST)**, Baillie Gifford-managed **Scottish Mortgage (SMT)** and **Finsbury Growth & Income (FGT)**.

KEY POINTS TO CONSIDER

The price of an open-ended fund will match the value of the underlying assets. It's different with investment trusts where the price is dictated by supply and demand. This means their shares can trade at a discount or a premium to the net asset value (NAV) of the underlying portfolio.

While buying an investment trust at a discount is typically regarded as bagging a bargain, there are often reasons why a trust languishes on a discount which may give you pause for thought.

Trusts trading at a premium to NAV aren't that common. Where they do swap hands for more than the underlying NAV, this usually reflects strong investor demand to access the skills of the manager, the strategy or the asset class in question.

Another key difference between trusts and funds is the former's ability to borrow money for additional investment. This is known as 'gearing'; there are strict limits on how much gearing an investment trust can employ.

Gearing can magnify returns when markets rise, assuming the trust earns a return on

borrowed money that is higher than the interest it pays on its loan. When markets fall, you can expect the shares of a geared trust to fall further than an ungeared trust.

KEY POINTS ABOUT ETFS

Exchange-traded funds are growing in popularity as a simple, low-cost tool for getting access to a range of companies, commodities and countries. They are similar to funds in that they invest in a pool of assets and provide exposure to a particular theme or market.

Like investment trusts (but not like investment funds), ETFs trade on a stock exchange and you can buy or sell them at any time during trading hours at the price shown (with the price changing in accordance to demand). Investment funds are only priced once a day.

ETFs are fairly transparent. Unlike a fund or investment trust, whose manager might be reluctant to reveal their holdings and tactics, you can generally see what ETFs are investing in because the vast majority track a specific index, such as the FTSE 100 or S&P 500.

They will clearly state the name of each index, so you can easily check how that index is constructed via a quick search on the internet.

In recent years, ETFs have become increasingly popular with retail investors, in part due to their low costs but also because of the fact many active fund managers fail to beat their benchmarks. This is despite charging higher fees which eat into investor returns.

WHICH ACCOUNT SHOULD I USE?

ALL TYPES OF funds can be held in ISAs, SIPPs and dealing accounts.

You might want to start with an ISA as all investments inside this wrapper are shielded from the taxman, so you don't pay tax on capital gains or income. You can also take your money out when you like, although Lifetime ISAs have some tricky rules on withdrawals depending on the circumstance – more information here.

Consider using a SIPP, which is a pension wrapper, if you're happy to lock up your money until at least age 55 and want to benefit from the Government topping up your contributions via tax relief.

Dealing accounts should really only be considered if you've used up all your ISA allowance in a tax year and don't want to put that money into a SIPP.

POTENTIAL PLACES TO START

If you are new to investing, you might want to look at an ETF which tracks a basket of shares in different parts of the world.

For broad brush exposure to growth stocks listed across the pond for example, relevant ETFs include **iShares Core S&P 500 ETF (0JFF)** which tracks the performance of the US S&P 500 index whose constituents include Apple and Coca-Cola.

The likes of **iShares Core FTSE 100 ETF (ISFU)** provide passive exposure to the 100 largest listed companies in London such as **Unilever (ULVR)** and **HSBC (HSBA)**.

ETFs tracking companies around the world include **Lyxor Core MSCI World ETF (LCWL)** which mirrors the performance of the MSCI World, an index of more than 1,600 stocks trading in 23 different developed market countries. Among the names in the index are Microsoft, Johnson & Johnson and Nestle.

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

KEY

- Main Market
- AIM
- Investment Trust
- Fund
- ETF

KEY ANNOUNCEMENTS OVER THE NEXT WEEK*

Full year results

6 April: GYG, Mobile Tornado. **7 April:** Alliance Pharma, Northbridge Industrial Services. **8 April:** Camellia, Impact Healthcare REIT, Pebble Group, Tesco. **9 April:** PureTech Health.

Trading statements

3 April: CMC Markets. **7 April:** Gooch & Housego.

*PLEASE NOTE DATES ARE SUBJECT TO CHANGE DUE TO COMPANIES BEING ENCOURAGED BY THE FCA TO DELAY THE PUBLICATION OF RESULTS

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