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SHARES

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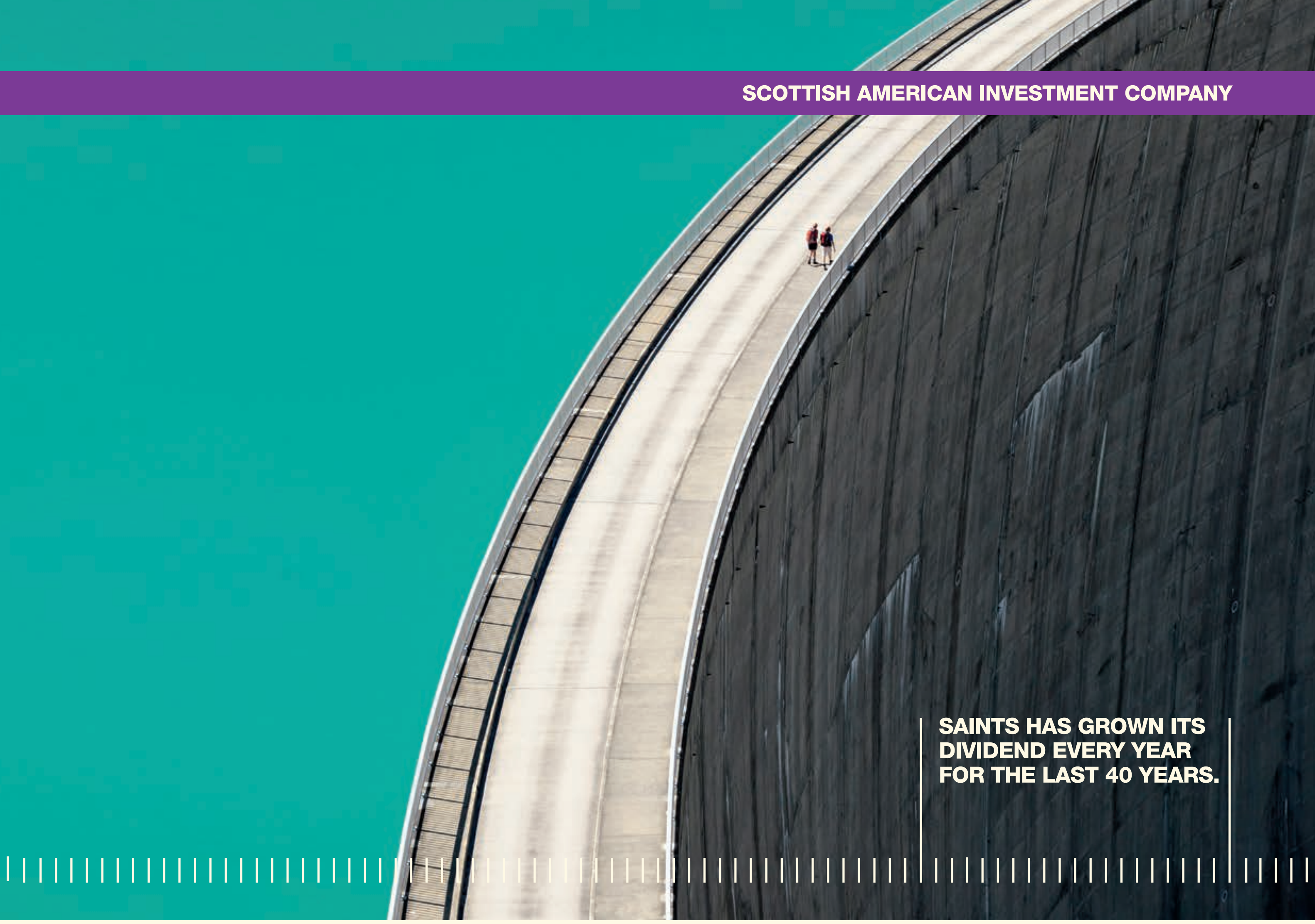
VACCINE PROGRESS LIFTS STOCKS AS INVESTORS LOOK FOR ROUTE OUT OF CRISIS



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Terry Smith: family-controlled companies are good for dividends

Initial evidence from UK-listed stocks suggests they aren't as dependable as the fund manager hints

One of the biggest issues to affect households around the world this year is the reduction in income from dividend-paying investments.

The effects will begin to be noticed in the coming months when many investors find they don't get as much investment income as they used to, compounded by the fact that many individuals are also having to cope with a reduction in salary if they have been furloughed from their job.

In this week's edition of *Shares* we've dedicated a lot of space to the topic in an attempt to help readers rejig their portfolios and continue to enjoy healthy levels of investment income.

You can find a list of companies that are still paying their dividends, as well as a deeper analysis into the scale of the dividend cuts and a selection of investment ideas for anyone looking to switch into income-generating funds.

As part of our analysis we noted several comments from experts about how family-controlled companies can be reliable sources of dividends. Among those espousing the virtues of these types of businesses is Terry Smith, manager of popular investment fund **Fundsmith Equity (B41YBW7)**. Writing in the *Financial Times* in April, Smith said out of 47 stocks in the Stoxx Europe 600 that are 'family influenced', only three have cancelled or postponed dividends.

'Very often these extended families, descended from the business founder, rely on the dividend income from the family business,' he added.

Family-controlled businesses are often reluctant to take big risks as they want to ensure the company is still around for future generations to run. They are often seen as being very prudent with regards to spending, with the dividend seen as essential as it helps to return a regular stream of cash back to the family.

Sadly having family ties doesn't make a company immune from the pressures facing the corporate world.

A quick look at the London-listed stocks that have cut or suspended dividends this year unearths four names which all have founding family members as major shareholders and directors.

They are conglomerate **Associated British Foods (ABF)**, drinks manufacturer **AG Barr (BAG)**, flooring group **James Halstead (JHD:AIM)** and housebuilder **Watkin Jones (WJG:AIM)**. A fifth family company, lift components manufacturer **Dewhurst (DWHT:AIM)**, says it won't decide on the dividend until June.

One way to continue receiving the same level of income from your investments as before is to sell a small chunk of shares or fund units. This approach tends to divide opinion and we'll leave the debate for another time.

For now, it would be wise to go through all your investments and check when you normally expect them to pay dividends.

Look at this list on AJ Bell Youinvest's website to see which companies have cut, delayed or suspended their dividends. Work out the likely drop in income from your portfolio and make a plan for either cutting back spending or deciding if you are happy to sell some of your investments to raise the cash to make up the shortfall.

Also read our investment ideas in this week's magazine to see if they might be more suitable places for your money going forward.

DISCLAIMER: The author has a personal investment in Fundsmith Equity

By **Daniel Coatsworth** Editor

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VIEWING SHARES AS A PDF?
CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION

Vaccine progress lifts stocks as investors look for route out of crisis

Widespread manufacture and distribution of vaccines is not a trivial undertaking

The market mood is being lifted both by countries' emergence from lockdown and from progress towards a vaccine for the coronavirus – offering a potential route out of the crisis.

While historically vaccines have taken years to develop, events are moving fast as healthcare companies throw significant resources at the pandemic.

Shares reported in mid-April that US group **Moderna Therapeutics** was one of the companies in the hunt to find a vaccine.

On 18 May Moderna's shares surged 23% after its experimental vaccine showed promise in a small early-stage trial. There was wider strength in stocks as markets reacted to the news with the FTSE 100 rising more than 2% to trade back above 6,000 and the S&P 500 above its level from 12 months ago.

Travel and leisure firms – most badly hit by the virus and the lockdown and quarantine measures imposed to tackle it – were some of the best performers.

Progress is not just being made in the US. On 24 April Oxford University began the first human trials on over 1,100 healthy volunteers, with initial results expected later in the summer.

Once or if a vaccine is found, the thorny issue of manufacture and distribution is not a trivial additional problem to solve. It is therefore welcome news that **AstraZeneca (AZN)** said on 30 April it would collaborate with Oxford University to help with development and large scale manufacturing.

The UK Vaccine Manufacturing and Innovation Centre will be capable of producing 70m vaccine doses at a new facility, a 20-fold increase on previous capacity. In addition the physical building will come online a year earlier than expected in the summer of 2021.

Imperial Brands still offers 9% yield despite dividend cut

The company breaks a long streak of dividend increases with a one-third reduction

CIGARETTE MAKER **IMPERIAL Brands (IMB)** has cut its 2020 dividend by a third as it tries to find ways to reduce debt pressures amid the coronavirus crisis and a poor showing for sales of its next generation vaping products.

This represented the first time the company had failed to increase, let alone cut, the dividend since it was spun out of the conglomerate business Hansen in 1996.

The stock was trading on a prospective 11.5% yield before the announcement. The shares now offer a near-9% yield based on guidance from Imperial Brands for 137.7p in dividends for the year.

Big shake-up with fund managers at Invesco, Allianz and Marlborough

Mark Barnett leaving Invesco shouldn't surprise but Lucy Macdonald leaving Brunner is disappointing

It's been a week of big changes in the UK fund management industry with the departure of several high-profile managers including Mark Barnett from Invesco who has struggled with a long period of underperformance.

The **Invesco High Income (B8N46L7)** and **Invesco UK Income (B8N46V7)** funds, which Barnett took over running from Neil Woodford, will be co-managed by James Goldstone and Ciaran Mallon. The **Invesco Strategic Income (B1W7J42)** fund will merge with Invesco Income.

As well as underperforming the FTSE All-Share over a prolonged period, Barnett came in for criticism for his holdings in unquoted and difficult to trade smaller companies, which led to heavy write-downs of both the main funds in March.

In April Invesco and Barnett were served notice by the board of **Perpetual Income and Growth (PLI)** for running the investment trust.

'It perhaps comes as no surprise to see the new chief investment officer (Stephanie Butcher) at Invesco ringing the changes, given that the UK Equity business has seen significant outflows in recent years with the flagship funds shrinking from £24.9bn (Invesco Income and High Income) in July 2013, prior to the departure of Neil Woodford from Invesco, to £4.9bn now,' says Numis.

'Outflows continued after the initial shock of Woodford's exit as performance of the funds under Mark Barnett continued to disappoint. This reflected underperformance of the value style and a focus on defensive stocks (tobacco, healthcare and insurers).

'In addition, the portfolios had a significant bias towards UK domestic stocks which the manager believed offer significant value, whilst he was underweight highly-rated consumer goods businesses. There were also a number of stock-specific issues.'

Elsewhere, Lucy Macdonald, lead manager of **Brunner Investment Trust (BUT)**, has left after asset manager Allianz Global Investors decided to create a new team to manage global equity products.

Brunner will now be led by Matthew Tillett who has helped Macdonald to run the investment trust for several years and is described by investment bank Stifel as a 'sensible pair of hands'.

Giles Hargreave, AAA-rated manager of the **Marlborough Special Situations Fund (B907GH2)**, has announced he will step back from managing money at the end of this year as part of the firm's long-term succession plan.

Hargreave, who has run the special situations fund since 1998 as well as Marlborough's micro-cap and nano-cap strategies, had returned 2,746% in the small-cap fund as of the start of April compared with a 384% gain for the Numis Smaller Companies benchmark, according to *Citywire*.

From next year the three funds will be run by Eustace Santa Barbara, co-manager of the special situations strategy for the last five years, and Guy Feld who has co-managed both the smaller fund strategies for several years.

Scottish Mortgage makes herd avoidance plans

The popular retail growth trust wants to distance itself from mainstream tracker funds

FTSE 100 investment trust **Scottish Mortgage (SMT)** has admitted that it needs to closely watch its largest holdings to maintain distance from index tracker funds.

It has carved a gold-plated reputation with investors as an elite picker of growth stocks, controlling more than £10bn of assets. It prides itself on identifying exciting growth companies capable of producing superior returns for investors over the medium to long term.

But the rapid rise of some of its most successful investments over the past couple of decades, and their apparent resilience during economic hardship, means some of its biggest stakes increasingly feature in passive tracker funds.

These include Amazon and Google's parent company Alphabet who combined are more highly capitalised than all quoted British companies, according to Scottish Mortgage's joint managers James Anderson and Tom Slater.

For example, Scottish Mortgage first invested in online retail platform Amazon in 2005, when its share price traded at between $20 and $50. Those same shares now change hands at more than $2,400, valuing the business at $1.2trn and mean many global or US tracker funds own it.

'In general our quoted portfolio has become more conventional and gradually, then suddenly, less differentiated from the index than in the past,' says the trust. Other popular growth companies among its larger holdings include Tesla, Netflix, Ferrari, and Alibaba and Tencent, the Chinese online shopping and social networks.

Scottish Mortgage says it is not hugely worried at present as the world adapts to changes stemming from the coronavirus pandemic but it admits this could become an issue in the future. 'We must continue to evolve,' say Anderson and Slater.

One of the ways Scottish Mortgage can continue to diverge from more mainstream funds will be

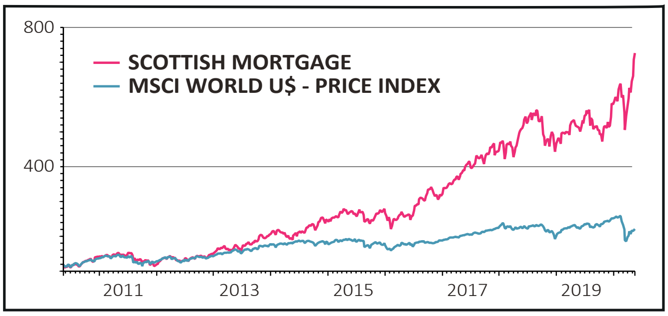
Its investments include TikTok owner ByteDance

to unearth opportunities among privately-owned companies not listed on stock markets. It has done this successfully in the past, backing the likes of music streaming service provider Spotify, ride hailer Lyft and workplace collaboration platform Slack before they floated in the US.

Scottish Mortgage currently owns stakes in around 40 unlisted businesses, including Chinese payments firm Ant, money transfer business TransferWise, Airbnb and Palantir, the secretive data analytics firm whose founders include Peter Thiel, one of the individuals behind PayPal.

The investment trust wants shareholders to back plans to lift the amount it can invest in private businesses from 25% to 30%. The trust also intends to scour China more closely for investment opportunities in the future.

DISCLAIMER: The author owns shares in Scottish Mortgage



Lindsell Train launches North American fund

Knowledge gained on US market from new fund is expected to benefit Lindsell Train's global equity product


Nick Train of Lindsell Train

In a sign the asset management industry remains active despite the current market volatility Lindsell Train has launched its first new fund in nearly a decade with Evenlode Investment separately moving forward with plans for a new product targeting global stocks.

The **LF Lindsell Train North American Equity** fund was quietly launched last month, with Lindsell Train saying the fund will need to build up a 'meaningful track record' – which could take up to five years – before it is marketed to external investors.

That means it is essentially an internal product for now and not something in which retail investors can put money for some time.

Interestingly, it will be the first Lindsell Train vehicle not steered by either Michael Lindsell or Nick Train, the well-respected fund managers and owners of the asset management business.

Instead it is being managed by James Bullock, who joined the firm in 2010 and co-manages **Lindsell Train Global Equity Fund (B3NS4D2)**. He will be supported by Madeline Wright who has been a deputy portfolio manager at Lindsell Train for the past year and previously fund manager's assistant since 2012.

Not much is known about what will be in the new portfolio, but it is likely to have an overlap with the US holdings of Lindsell Train Global Equity.

In its rationale for launching the new US fund, Lindsell Train said: 'Given the US is a critical market for our Global Equity strategy (with over 40% of our Global universe being US companies), any broadening or deepening of our knowledge should additionally benefit the global portfolios.'

Entertainment giant Disney is the largest US holding in the Global Equity fund, followed by confectionary maker Mondelez International and payments company PayPal.

It's worth noting the US has been a tough nut to crack for active managers. Data as of 31 December 2019 from Standard & Poor's showed that 80.6% of actively managed funds underperformed the S&P 500 over five years, with 71.13% underperforming over three years and 70.98% underperforming over one year.

While it's not entirely clear what the new fund will invest in, comments about Amazon from Train in the latest **Finsbury Growth & Income (FGT)** update – another fund run by Lindsell Train – might provide some insight.

Describing Amazon's $900bn market cap as sobering, Train added: 'That is the equivalent of 15 Diageos – to pick the biggest FTSE All-Share constituent we own in your portfolio.

'That astounds me. I don't know if it's crazy. But what the success of Amazon as a business and an investment tells us is clear. It is that every company we invest in must be judged not only on its likelihood of surviving the crisis, but also on its fitness for prospering in a world where Amazon and its ilk can get so big.'

Meanwhile, asset manager Evenlode has appointed James Knoedler as co-portfolio manager for a new global equity fund to be launched in the next 12 months.

There is an expectation that the fund will be run along similar lines to the existing **Evenlode Global Income Fund (BF1QMV6)** but without the emphasis on dividends.

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Evenlode Global Income

IT'S ALL ABOUT RISK AND REWARD!

When it comes to investment decision making, is there a place for emotion? You might be surprised to learn that a lot of the behaviour in markets is emotionally charged, with investors favouring information that supports their entrenched views. Challenging the consensus and thinking contrarian can prove to be even more important now.

The contrarian investor's job is to be aware of the emotions involved in investment decisions, to challenge accepted thinking, be sceptical of trends and remain open-minded when other investors walk away.

Often, investors become emotionally attached to stocks and their stories – which can be dangerous. When an investment is universally loved, even a small disappointment can upset the share price. When the expectation bar is high, a company needs dazzling results to exceed expectations.

So-called pariah stocks are also a product of emotional investing. Having been disappointed in the past, investors can be reluctant to see signs of improvement. Contrarian investors examine the stocks shunned by the wider market because they can be undervalued and rational investments: with little good news reflected in the share price, even an incremental improvement can beat expectations.

One well-known speculative 'hot theme' that investors fell for was Bitcoin. Launched in 2009, the cryptocurrency was the next big and overhyped thing, quickly gaining a cult following. The value of Bitcoin surged to nearly \$20k in December 2017. However, this meteoric rise didn't reflect any fundamental increase in its value. One attraction was Bitcoin's finite nature – only 21 million Bitcoins were to be produced. But in 2018, a de facto parallel currency cast doubt on Bitcoin as a value store. Bitcoin then dropped considerably – below \$3.3k. Clearly, an emotional element drove these extreme movements.

In contrast, for centuries gold's appeal has been its ability to retain its purchasing power. The Scottish has exposure to gold via a number of gold miners, including Newmont and Barrick Gold. Before our purchase, investors had punished these companies for overexpansion, but they took action by cutting costs and reducing debt. When it comes to investing, popularity isn't everything and emotions can be a hazard. Read on for five key points to consider in the quest to buy low and sell high.

1: Don't follow the crowd

Markets and stocks can become overbought or oversold – a consequence of the cycle of 'greed and fear' when news is good or bad. Don't get sucked in or out of investments at these times, especially when everyone is buying or selling. A rational, evidence-based, unemotional approach is essential.

2: What can improve?

Being a contrarian is not about seeking out the most hated stocks. These are only interesting when change is afoot. This can come from new management, a new strategy, activist involvement, or merger and acquisition activity. A contrarian finds overlooked signs of improvement, as these may bring positive share price moves.

3: Emotions matter

Investors are human; they can fall in love with stocks and then only hear information that supports their emotions. Contrarian investing seeks to take advantage of this in an objective way.

4: Belt and braces

The financial fundamentals of an unloved stock need to be solid. Is there asset backing? Can the company pay a dividend while waiting for improvement? Is the balance sheet stretched? Do management have control over their destiny? The contrarian needs to be comfortable with the answers.

5: When to sell

Having a strong sell discipline is the corollary to a disciplined buying process. It means avoiding behavioural biases and allowing money to be recycled into new and better ideas.

Rigour, patience and a long time horizon are requisites of a contrarian. The crowd is not easily ignored, but following these steps could help uncover a true contrarian opportunity. ■

11 May 2020

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Diversified Gas & Oil is the real deal for dividends

A recent move from AIM to London's Main Market is a likely precursor to achieving FTSE 250 status

Newly promoted from AIM to London's Main Market, **Diversified Gas & Oil (DGOC)** could provide a beacon of income stability at a time when many listed companies have been cutting their dividends.

A dividend yield of 12% is underpinned by the company's low-cost model, strong balance sheet and robust cash generation.

Chief executive Rusty Hutson tells *Shares* he is 'adamant' the dividend will not be cut.

On 4 May the company announced a quarterly dividend payment of 3.5c per share, in line with the level from the fourth quarter.

A potential inclusion in the FTSE 250 index later this year is a catalyst for the stock as index funds would be required to buy it.

The company's strategy is to buy conventional assets, often from larger operators which are not set up to run them as efficiently and, in the past at least, which have been chasing

DIVERSIFIED GAS & OIL
BUY
(DGOC) 102p
Market Cap: £722m

the higher volumes associated with unconventional assets.

Diversified Gas & Oil's wells, most of which are located in the Appalachian region, often have long lives and low rates of decline with minimal maintenance costs. Its output is heavily weighted towards natural gas.

The US Henry Hub natural gas benchmark is currently approaching $2 per thousand cubic feet (mcf), having been pulled lower amid the dive in oil prices. Diversified Gas & Oil has hedged 90% of its 2021 production at $2.60 per mcf and has a unit cost of just $1.16 per mcf – enabling it to generate strong margins.

As oil producers shut in production in response to lower prices and dwindling demand, this reduces the amount of associated natural gas produced alongside this oil and could boost the price for Diversified Gas & Oil's unhedged output.

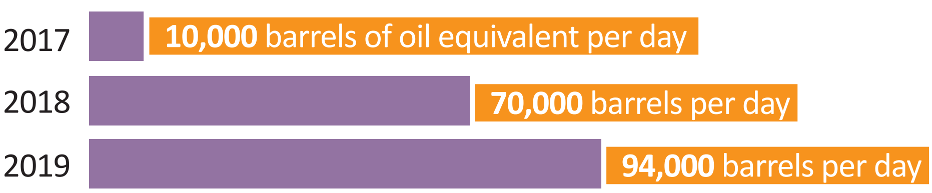
The company remains committed to acquisitions and it announced two separate deals in recent weeks, worth a combined $235m, funded in part by an oversubscribed $87m share placing.

Hutson says there is a one to two year window to take advantage of opportunities created by the current dislocation in the market as other operators look to reduce their levels of debt.

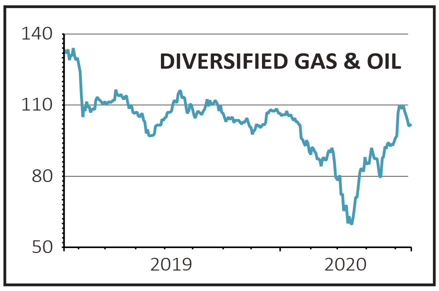
As the business builds its production through further M&A it should in theory generate more cash to return to shareholders.

Risks include the company's borrowings which stand at just over two times earnings, although this is mitigated by strong cash generation, as well as weak sentiment towards the wider oil and gas sector. However, overall we think this looks an attractive income play.

DIVERSIFIED GAS & OIL PRODUCTION GROWTH



Source: Diversified Gas & Oil



Tap into predictable profits from a $105bn electronics giant

Texas Instruments is a semiconductors bellwether with long-run growth potential

A global manufacturer of the very building blocks of electronics and computing, US-listed **Texas Instruments** is the sort of resilient technology business for a diversified investment portfolio.

The $105bn company has been around since 1951 and is today the world's largest manufacturer of analog microchips.

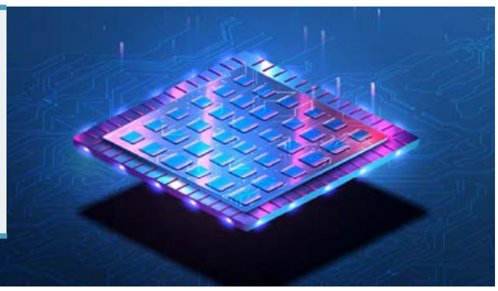
These are relatively cheap bits of kit and are vital components in all electronics as they convert real-world signals, such as sound, touch and temperature, into digital.

They are also used for power management, especially useful in batteries for mobile devices. That hints at future growth opportunities as more electronics become mobile.

We've already seen how mobile has transformed how we use phones, computers and even vacuum cleaners, and we will see this trend accelerate markedly if the internet of things connectivity takes off. Electric cars are another growth area.

Costing just a few cents per chip, they retain surprising pricing power because they are typically designed into new products. This means supply agreements tend to be for the lifecycle of a product while making customer switching costs prohibitive.

TEXAS INSTRUMENTS
BUY
(TXN:NDQ) $114.42
Market Cap $105bn



Texas Instruments stands out with its protected analog chip designs and intellectual property, as well as long standing manufacturing expertise. This gives the company a wide and deep economic moat, according to analysts at Morningstar. It already has the broadest range of products and longest list of customers in the industry.

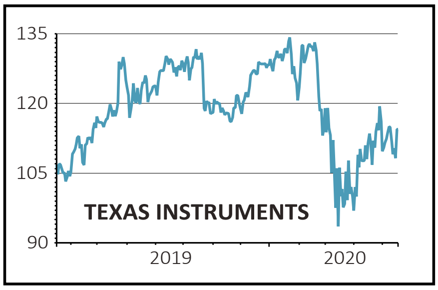
Given the raging Covid-19 pandemic, it is understandable that business this year will be impacted. Earnings per share (EPS) for the year to 31 December 2020 are expected to fall 23% to $4.03. But analysts see a rapid bounce, forecasting EPS of $4.92 in 2021 and $6.55 in 2022.

Investors should be aware that accurate forecasts cannot be relied on right now, given the intense uncertainty around the global economy, but the biggest threat to Texas Instruments remains exposure to the notoriously cyclical chip industry. This will doubtless mean headwinds from time to time although a wider than most customer base and emerging market opportunities should help smooth the cycle.

It has $5.4bn cash, leaving net debt at just $400m. That's a drop in the ocean for a company that has produced an average $5.5bn of free cash flow in the last three years.

The dividend looks fairly safe. It is expected to pay $3.61 per share this year (paid quarterly), 12% up on 2019, with mid-single digit growth expected beyond. That implies a useful income yield in the region of 3.2%.

The shares are listed on the US Nasdaq market but should be widely available on UK investment platforms.



CENTAMIN
(CEY) 180p

Gain to date: 38.9%
Original entry point:
Buy at 129.6p, 1 August 2019

SINCE HITTING A low when gold prices bottomed out on 18 March, shares in FTSE 250 miner **Centamin (CEY)** have bounced back and then some.

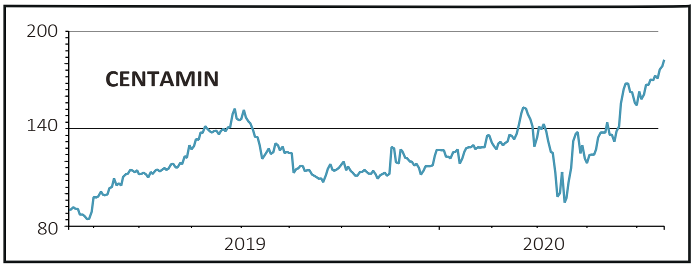
In two months, the Egypt-based gold miner has seen its share price shoot up 91% from around 94p to 180p this week.

The miner's rise has been helped by a 17% hike in the price of gold to $1,735 per ounce, as well as strong financial results for 2019 and the fact it's been largely unaffected by the coronavirus crisis.

Its delayed 2019 results showed a 13% jump in profit after tax to $172.9m and a 7% rise in revenue to $658.1m, while its first quarter update for 2020 showed operations progressing smoothly.

Operational problems have been a big issue for Centamin in the past given it only has one (albeit world class) producing asset, the Sukari gold deposit near Egypt's Red Sea.

First quarter production of 125,000 ounces of gold at an all-in sustaining cost (AISC) of $902 per ounce sold was within annual guidance, and should translate into hefty profits given the current gold price. The firm also continues to pay dividends.



SHARES SAYS: ↗
A wave of monetary and fiscal stimulus should support gold prices further and Centamin is well placed to benefit. Keep buying.

KNOWLEDGE IS POWER:
UNDERSTANDING SHORT & LEVERAGED ETPs

At WisdomTree, we pride ourselves in providing top-class investment vehicles to navigate markets in the best way possible. WisdomTree is the European leader in Commodity Exchange Traded Products (ETPs), but also offers the broadest range of Short and Leveraged ETPs (S&L ETPs) globally, covering most asset classes in both unleveraged and leveraged formats (-5x to 5x). S&L ETPs can be used in a large spectrum of market scenarios to achieve a wide range of investment goals:

+ Expressing tactical views and positioning your portfolio for specific scenarios
+ Hedging other assets in your portfolio to enhance the overall risk return profile of your investments
+ Managing the risk in your portfolio
+ Creating complex investment strategies that are usually only accessible to large, professional investors.

However, these tools are complex instruments with their own rules and intricacies.

To provide savvy investors with the knowledge to better understand these products and their full potential, WisdomTree has recently published **"7 things to remember when investing in Short and Leveraged ETPs"**. In this publication, we review the following aspects of Short and Leveraged investments:

1. To deliver the required pay off, they have to follow a precise formula
2. They may not always track what you think they track
3. Closing Price and Net Asset value are not the same thing
4. Even if ETP can be traded only in European exchange market hours, the underlying continues to trade
5. They are exposed to currency moves
6. Compounding over multiple days can dramatically change the performance
7. Restrikes can also change the performance of the ETP

Visit our S&L Centre to access the full "7 things to remember when investing in Short and Leveraged ETPs" and for more information about Short & Leveraged ETPs – wisdomtree.eu/short-&-leveraged

The recipe to understanding Short and Leveraged ETPs

S&L ETPs have to be structured in a very specific way, generally around an index. That index represents the performance of the underlying assets in an easy to follow format. In most market conditions, the price (or "**Fair Value**") of an ETP at a given point in time is inferred from a simple formula:

+ the performance of its underlying index between the last point in time at which the **ETP Price per Security** (also known as "**Net Asset Value**" or "**NAV**") was calculated and the current point in time multiplied by its leverage (the "**Leverage Factor**")
+ minus fees and costs

When the index is unleveraged the Leverage Factor is NOT 1. When the index includes the leverage itself, then the leverage Factor is 1.

The **Net Asset Value** is the only reference price which will precisely provide the relationship between the underlying index's performance and the ETP's performance. When comparing the performance of the ETP to its underlying index, the previous **Net Asset Value** must be used as reference point. Comparing the performance of the ETP and the performance of the underlying index between two randomly selected points in time, would yield no observable relationship because they do not reference the NAV.

$$\text{ETP Fair Value} = \text{ETP Previous NAV} * \left[1 + \text{Leverage Factor} * \text{Performance of Underlying Index (since NAV Calculation Time)} - \text{Fees \& Costs} \right]$$

The London-listed stocks maintaining dividends

Discover the names and their prospective dividend yields

Since the middle of March almost half of the companies in the FTSE 100 have suspended or cut altogether their final 2019 and full year 2020 dividends.

So far just 26 companies in the FTSE have not changed their plans to pay dividends. The names are published in this article alongside all the relevant stocks outside of the FTSE 100.

We have included the prospective yields based on the latest share price and the amount of dividends a company is forecast to pay for the next full year period it reports.

Some of the highest yields and biggest cash payouts are at oil giant **BP (BP.)**, which is yielding over 11%, mobile operator **Vodafone (VOD)** which yields 6.7%, and insurer **Legal & General (LGEN)** which yields 9.7%.

BP committed itself to paying out £1.7bn just a week before **Royal Dutch Shell (RDSB)** cut its dividend, which begs the question if the timing had been different, would it also have cut its payout?

It is debatable whether Legal & General will press ahead with its payout, given pressure from the European insurance and pension regulator and the decision by rivals **Aviva (AV.)** and **RSA (RSA)** to suspend their dividends.

That said, **Phoenix (PHNX)** is still paying dividends, as is **Hastings (HSTG)** albeit at a lower rate. **Direct Line (DLG)** will make a decision on 2020 dividends when it releases its first half results on 4 August.

Outside of the FTSE 100, financial companies look more reliable when it comes to dividends as many of them will have benefited from increased trading activity, such as **CMC Markets (CMCX)** and **IG Group (IGG)**.

FTSE 100 DIVIDEND KEEPERS	Prospective yield
BP	11.3%
Standard Life Aberdeen	9.9%
Legal & General	9.7%
Vodafone	6.7%
SSE	6.3%
Berkeley	5.0%
GlaxoSmithKline	4.9%
3i	4.7%
Anglo American	4.5%
Pearson	4.1%
Tesco	3.6%
Unilever	3.6%
CRH	3.2%
Prudential	3.1%
Hargreaves Lansdown	2.8%
Sage	2.7%
Segro	2.7%
Diageo	2.6%
CCH	2.5%
DCC	2.4%
Croda	1.9%
Smith & Nephew	1.8%
Hikma Pharmaceuticals	1.5%
Spirax-Sarco Engineering	1.3%
London Stock Exchange	0.9%
Flutter Entertainment	0.8%

Source: *Shares*, AJ Bell, SharePad. Data taken 15 May 2020. To qualify for the list, companies must have declared since March 2020 their intention to keep paying dividends without any cuts or deferrals

By **Ian Conway**
Senior Reporter

Other London-listed dividend keepers	Prospective yield
Capital & Regional	15.9%
MHP	13.3%
Duke Royalty	12.9%
Real Estate Investors	11.9%
Ferrexpo	11.5%
Genel Energy	10.8%
Rockrose Energy	9.1%
Drax	8.8%
Contour Global	8.7%
S & U	8.6%
Custodian REIT	8.5%
Regional REIT	7.9%
Plus500	7.7%
CMC Markets	7.5%
Chesnara	7.3%
Target Healthcare REIT	7.3%
Impact Healthcare REIT	7.1%
M Winkworth	6.8%
Secure Income REIT	6.7%
Hastings	6.6%
Warehouse REIT	6.3%
Record	6.1%
Anglo Pacific	5.9%
GCP Student Living	5.8%
River & Mercantile	5.8%
Sabre Insurance	5.8%
IG Group	5.7%
Residential Secure Income REIT	5.6%
Man Group	5.4%
Supermarket Income REIT	5.4%
Renewables Infrastructure Group	5.3%
Jarvis Securities	5.3%
Zegona Communications	5.2%
Rathbone Brothers	5.0%
Keller	4.9%
Tritax Big Box	4.8%
International Public Partnerships	4.6%
CLS	4.5%
LondonMetric Properties	4.5%
RA International	4.5%
Centamin	4.4%
Numis	4.4%
Strix	4.3%
Telecom Plus	4.3%
Mattioli Woods	4.1%

Source: *Shares*, AJ Bell, SharePad. Data taken 15 May 2020. To qualify for the list, companies must have declared since March 2020 their intention to keep paying dividends without any cuts or deferrals

Other London-listed dividend keepers	Prospective yield
Assura	3.9%
Primary Health Properties	3.9%
Brooks Macdonald	3.8%
Frenkel Topping	3.8%
Hunting	3.8%
Moneysupermarket.com	3.8%
Stock Spirits	3.8%
Quilter	3.7%
Tatton Asset Management	3.7%
Vivo Energy	3.7%
TI Fluid Systems	3.6%
888	3.5%
MP Evans	3.5%
EMIS	3.1%
CareTech	3.0%
Glanbia	2.9%
Safestore	2.9%
Phoenix Spree Deutschland	2.8%
Concurrent Technologies	2.8%
Derwent London	2.7%
SimplyBiz	2.7%
Avast	2.6%
Mortgage Advice Bureau	2.5%
EKF Diagnostics	2.4%
Lok'n Store	2.4%
Sigma Capital	2.4%
Grainger	2.3%
Anpario	2.2%
Capital Drilling	2.2%
PCF	2.2%
Volex	2.2%
Bioventix	2.1%
ConvaTec	2.1%
Hilton Food	2.1%
Bloomsbury	2.0%
Chemring	2.0%
Cerillion	1.9%
Sureserve	1.8%
Spirent	1.7%
Aptitude Software	1.6%
JTC	1.5%
Franchise Brands	1.4%
Treatt	1.2%
Fevertree Drinks	0.9%
Porvair	0.8%
Advanced Medical Solutions	0.7%
Gresham Technologies	0.6%
Ideagen	0.2%

DIVIDEND DELIGHT

The stocks and funds still paying investors a decent income

Nine investment ideas covering UK stocks, UK and global equity funds, bond funds, and property and infrastructure trusts

By **The Shares Team**

Income is a big motivating factor for people to invest in the markets. The idea of securing a regular stream of cash which can be used to pay the bills or reinvested to help boost capital returns is an attractive one.

However, this income is not guaranteed and the last two months or so of dividend cuts, suspensions and deferrals have seen billions of pounds worth of payouts from UK stocks taken off the table. This means less cash in the pockets of investors.

There is still hope amid the darkness for income hunters. Not all businesses and asset classes are being affected equally, either by the pandemic or the lockdown measures introduced to contain it. There are still many firms and funds with both the means and intention of continuing to pay a decent dividend.

In this article *Shares* identifies nine income picks which we think are fairly resilient to the coronavirus crisis, spanning UK and global stocks and funds as well as bonds, property and infrastructure.

RESETTING EXPECTATIONS

On the whole, the level of income on offer from equities is likely to be lower than has been seen in recent years.

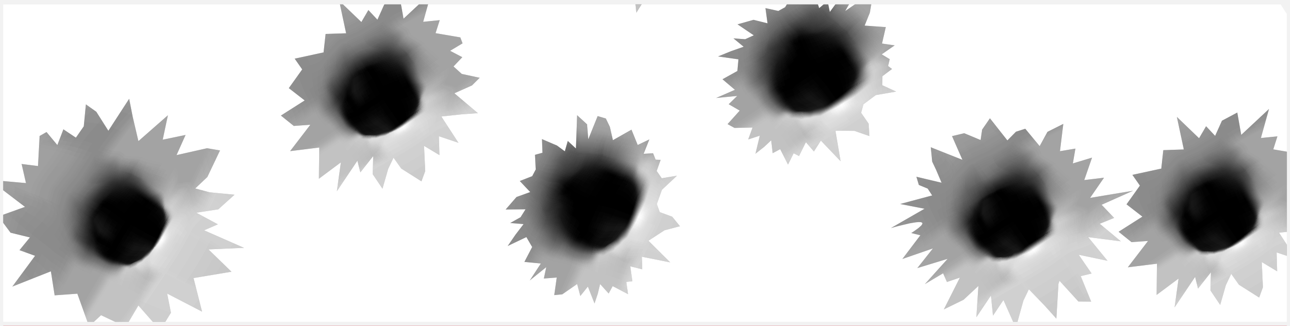
In fact with companies building up debt and the possibility of regulator intervention, particularly for those which have been in receipt of state aid, the capacity of some firms to pay dividends at pre-crisis levels may be impaired in the longer term.

The dividend suspensions and cuts introduced by companies as they look to weather the corona-related storm will also feed through to income funds and investment trusts to some degree, including some of our selections in this article.

Most of the time the yields quoted for these

The UK market is currently yielding around 5%

This could drop to 3.5% given the amount of dividend cuts



WHY INVESTMENT TRUST DIVIDENDS AREN'T BULLETPROOF

The structure of investment trusts means that unlike other types of funds they can put aside up to 15% of the income received in good years in a rainy day pot to help sustain dividends when times are tougher. This trait has helped drive investors towards income-focused investment trusts, some of which have started to trade at a premium to net asset value.

Unfortunately this status has hyped up investment trusts so that some investors now believe they are bulletproof when it comes to paying dividends.

'Ultimately, in the long term the level of dividends will depend on the underlying income from the market and making estimates of this is an impossible task at the moment,' says Numis.

'If underlying companies reduce payouts over the long-term it is going to be increasingly difficult for equity investment trusts to support dividends well in excess of the market, even if they have significant reserves.'

Investment trusts are unlikely to want to run down their reserves to near-zero as it leaves them with no support for future years, so don't assume that buying a trust with plenty of reserves means they will guarantee historic dividend payouts.

High yielding trusts with at least a years' worth of reserves to cover the payout, trading at a premium

Trust	Dividend yield	Dividend cover (years)	Premium to net asset value
Chelverton UK Dividend	9.5%	1.59	2.1%
Merchants	7.6%	1.00	4.0%
Murray International	5.5%	1.09	1.4%
BMO Capital & Income	4.6%	1.22	1.2%

Source: AIC. Data to 30 April 2020

products will be historic, and in the majority of cases it would be prudent to assume they will not pay the same level of income for 2020 as they have in previous years.

Janus Henderson's Jane Shoemake, investment director on the Global Equity Income team, comments: 'The UK market is currently yielding around 5%, but as all the cuts come through this will prove to be illusionary and the yield could be nearer to 3.5%. However, this still looks attractive when compared to the yield available from bonds and cash and is around the market's longer term average.'

STOCKS VERSUS BONDS AND CASH

While it might be tempting to turn away from equities after being burned by the unremitting stream of negative news on dividends, with interest rates at record lows the income on offer from cash in the bank or for a lot of bonds is not attractive.

Fidelity's global chief investment officer Andrew McCaffery comments: 'Parts of the fixed income markets could see income reduce.

'As countries borrow heavily to mitigate the impact of the crisis, fiscal deficits balloon and monetary policy remains loose, government bond yields are likely to be even lower and carry higher risk than in the past. This creates an income conundrum for investors that may have to be addressed in other ways.'

These other ways may include turning to infrastructure and certain property assets. McCaffery adds: 'In the short term, areas such as real estate and infrastructure face challenges around income, tenant viability and counterparty risk. Longer-term, however, high quality real assets should provide both income and elements of diversification away from public markets.'

Even among listed companies, some will see their dividend paying capacity less affected. Pointing to Janus Henderson's recently published Global Dividend Index, covering 1,200 of the

largest global companies, Shoemake says: 'if we look at the report we estimate 40% of dividends paid globally are in relatively resilient sectors like healthcare, consumer staples and technology; 40% are in highly cyclical areas such as financials and energy and consumer discretionary sectors like retail and travel and leisure which have been badly affected; while the impact for the remaining 20% will be mixed.'

CUTTING DIVIDENDS CAN HELP COMPANIES

Sometimes pausing or cutting dividends is the right thing to do. Preserving cash could help see companies through the crisis and aid the longevity of the business.

The Global Dividend Index report has a best-case scenario which will see a 15% decline in global dividends in 2020 and a worst-case scenario which will see a decline of 35%.

Shoemake sees the likely outcome as being somewhere between those two extremes, noting that in the financial crisis, from peak to trough dividends fell 30% while earnings fell 60%.

The message is clear: you need to pick your investments very carefully and don't presume historic levels of income will continue into the future.

To help you navigate the space, we now look at different parts of the investment income universe to explain what's happening and to suggest investments which we believe to be attractive in the current environment. That said, it is important to understand that dividends are not guaranteed payments, even among stocks and funds that seemingly look strong enough to pay.

WHICH AREAS OF THE UK MARKET LOOK SAFE FOR INCOME INVESTORS?

There are areas of the market where companies are generating sufficiently steady cash flows where investors can be confident dividends will continue to be paid.

Healthcare is a prime example, with drug makers **AstraZeneca (AZN)** and **GlaxoSmithKline (GSK)** generating billions of dollars of positive cash flow every quarter.

Moreover, both firms are mindful of the need to maintain their dividends, particularly after so many FTSE 100 companies have suspended payouts.

Smaller healthcare stocks such as **Bioventix (BVXP:AIM)** and medical equipment suppliers **ConvaTec (CTEC)** and **Smith & Nephew (SN.)** also generate healthy cash flows and are optimistic about the full year, which bodes well for their ability to keep paying dividends.

A large number of property stocks and real estate investments trusts (REITs) – which are often bought precisely because of their seemingly dependable yields – have also confirmed their dividend plans for this year. However, we must flag that some areas of commercial property look vulnerable longer-term if more people work from home rather than go into an office.

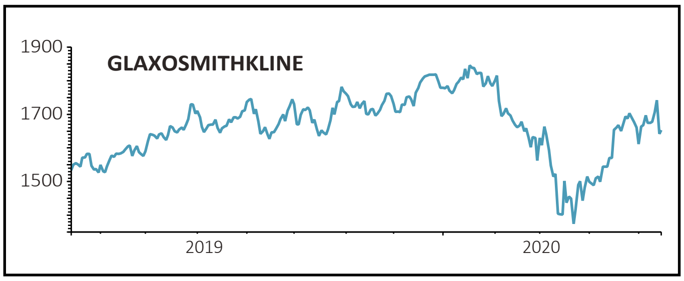
Investors have a choice of exposure to healthcare real estate through firms such as **Impact Healthcare (IHR)** and **Primary Health Properties (PHP)**, large-format retail real estate through **Supermarket Income REIT (SUPR)**, **Tritax Big Box (BBOX)** and **Warehouse REIT (WHR)**, or residential property through **GCP Student Living (GCP)** and **Grainger (GRI)**.

With savers and investors stuck at home poring over their finances, another area of the market paying healthy dividends is firms helping people with their money such as through financial advice or comparison services, with confirmed payouts from **Mattioli Woods (MTW:AIM)**, **Moneysupermarket.com (MONY)** and **Mortgage Advice Bureau (MAB1:AIM)** to name a few.

THREE UK STOCKS AND FUNDS TO BUY FOR INCOME

GlaxoSmithKline (GSK) £16.70 BUY

Prospective yield: 4.7%



Pharmaceutical giant GlaxoSmithKline has a solid record of progressively increasing its dividend and it also makes quarterly payments.

When it reported first quarter results (29 April) the company kept prior guidance for 2020 earnings per share to decline by between 1% and 4% while maintaining the dividend at 80p.

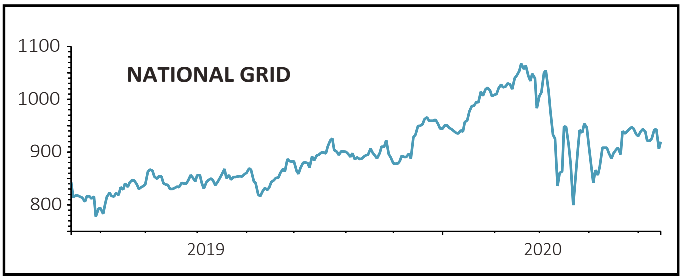
The company is very active in the fight against coronavirus and aims to develop multiple vaccines using its own technology as well as collaborating with companies across the globe.

A key advantage of GlaxoSmithKline's technology in the context of the pandemic is that it may reduce the amount of vaccine protein required per dose, allowing more doses to be produced.

Alongside vaccines, the company is exploring therapeutic options and in April announced collaboration with Vir Biotechnology to identify and accelerate new antiviral drug developments.

National Grid (NG.) 910p

Prospective yield: 5.4%



Inflation could become a much tougher challenge for income investors in the future so a measure of dividend inflation-proofing is a major reason to buy shares in this power network operator.

National Grid runs much of the UK's electricity and gas supply infrastructure, with similarly regulated operations in the US.

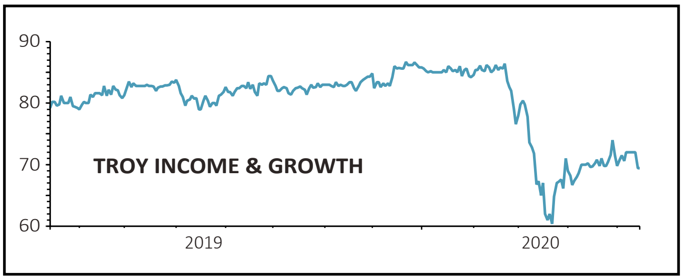
It has a long track record of steadily increasing its annual payout to shareholders dating beyond the 2002 merger with Lattice, which formed an electricity and gas transmission national champion.

People need to light and heat their homes whether there is a pandemic or not which means there has been little disruption to the company's finances, although it did hint at some infrastructure investment delays in an April update.

This makes National Grid forecasts reasonably reliable where the near-term is so opaque for so many others. Forecasts imply dividends of about 50p per share for the year to 31 March 2021, implying a 5.5% income yield, with annual payout growth of about 2.5% out to 2022. There is also around £5.5bn of untapped borrowing capacity to draw on if needed.

Troy Income & Growth (TIGT) 72p

Historic yield: 3.8%



A shift in the investment trust's portfolio in 2019, ahead of the coronavirus crisis, was well-timed. The trust sold higher yielding stocks where there were questions marks over the sustainability of dividends and replaced them with firms that had better long-term prospects for dividend growth.

Troy Income & Growth has already indicated that it will maintain the dividend at the current quarterly rate of 0.695p for the current financial year to 30 September 2020 but will rebase it from that point.

Despite this near-term reduction in income, we still think the trust should be a good long-term option for income investors as its new approach should enable it to increase returns to shareholders over time.

Steered by Francis Brooke and Hugo Ure, its top holdings include consumer goods firms **Unilever (ULVR)** and **Reckitt Benckiser (RB.)**, big pharma stocks GlaxoSmithKline and AstraZeneca as well as utility National Grid.

GOING GLOBAL IN THE SEARCH FOR INCOME

Readers may be more familiar with UK income stock options but to solely search your own investment backyard is a handicap most of us could do without.

Fund manager Baillie Gifford estimates there are roughly 250 dividend-paying companies in the UK with the scale and liquidity most investors would require, compared to something like 4,500 worldwide.

Going global provides you with the chance to escape from the current risks attached to UK oil companies, banks, high street retailers and other trouble spots.

Less cyclical high-yielding UK sectors such as tobacco and telecoms are where income seekers have traditionally turned yet these are mature sectors and ones that do come with regulatory risk and low long-term growth prospects.

It is not a coincidence that many companies in these supposed low-risk sectors such as **BT (BT.A)** have failed to deliver profit growth over long periods, and in many cases have had to rebase dividends.

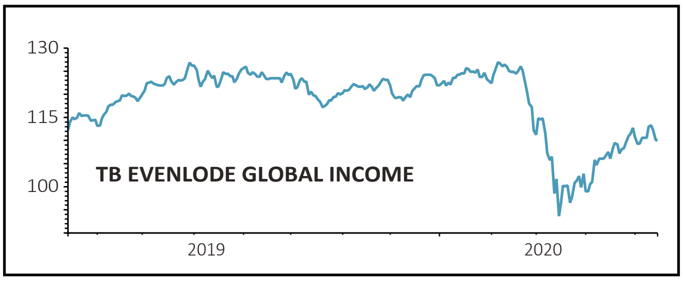
Having a worldwide remit paves the way for income from a far broader range of companies with established or emerging market positions and robust finances.

For example, innovative manufacturing companies with products that genuinely enhance the efficiency of their customers should see their earnings bounce back, such as Taiwan Semiconductor and Bristol-Myers Squibb, the US healthcare firm. Investment firm Blackstone and Pfizer are among the global names you will find with prospective income yields of more than 3.5%.

TWO GLOBAL FUNDS TO BUY FOR INCOME

TB Evenlode Global Income Fund (BF1QNC4)

Historic yield: 2.4%



This global income fund was born out of the success of the popular UK-focused TB Evenlode Income Fund. The latter has massively outstripped its Investment Association benchmark over three and five years by buying stakes in largely London-listed companies capable of producing high returns on invested capital long into the future, and grow income to match, including Unilever and **Diageo (DGE)**.

The TB Evenlode Global Income Fund's strategy is the same, but with a global stocks remit. It focuses on larger companies whose earnings are growing and where strong levels of cash generation should fund a growing stream of dividends.

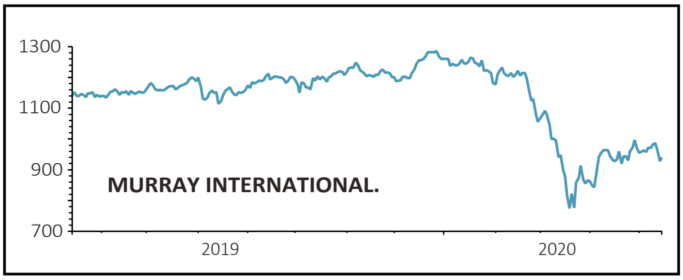
Its portfolio includes microchip manufacturer Intel. While it only has modest dividend yield of 2.4%, dividends are growing between mid-single and low-double digits each year.

A recent stake purchase in CTS Eventim, a European event ticketing provider, is an example of taking a long view. Talking on the AJ Bell / Shares Money & Markets podcast, Evenlode fund manager Ben Peters says Eventim is challenged right now with major events on hold, but it is in a great position for the future.

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Evenlode Global Income

Murray International (MYI) 942p

Historical yield: 5.8%



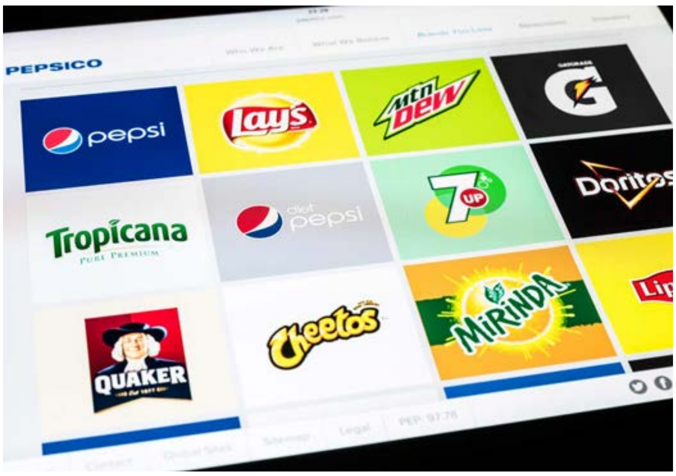
Managed by seasoned investor Bruce Stout, Murray International aims to generate an above-average dividend yield and long-term income and capital growth from a diversified portfolio of global equities and fixed income securities.

The yield is 5.8% based on what it paid in the last financial year but investors would be wise to expect a slightly lower figure going forward.

Murray has delivered 15 consecutive years of dividend growth and should continue to be a reliable source of income. It has substantial revenue reserves of £76m at last count, equivalent to 1.1 times the £69m total cost of the 2019 dividend.

Last year, a modest 11% of Murray International's revenue was generated from UK shares, while 63% came from overseas stocks. Stout favours emerging markets over developed markets due to their superior growth prospects and relatively attractive valuations.

Last year, some 26% of revenue arose from Murray's bond portfolio, enhancing its credentials as an income diversifier. There's an eclectic mix of equity holdings including the likes of tech leaders Samsung Electronics and Taiwan Semiconductor, consumer product powerhouses PepsiCo and Philip Morris, European industrials Atlas Copco and Bayer, and pharmaceutical firms Novartis and Roche.



INVESTING IN BONDS AS A SOURCE OF INCOME

Bonds are an IOU issued by governments and companies which pay a fixed rate of interest, usually twice a year. They are issued with various maturities, from two years all the way out to 30 years. At maturity the debt is repaid and the investor gets their money back, in theory.

Longer-dated bonds have higher yields than shorter-dated bonds to reflect the risk of not getting your money back and the effect of inflation eroding the purchasing power of your invested cash.

However, since the financial crisis of 2008, central banks have engaged in policies which have had the effect of lowering interest rates right across the maturity spectrum, from short-dated two-year to 30-year rates.

For example at the time of writing, two-year UK government bonds yield minus 0.04%, 10-years yield (positive) 0.2% and 30-years yield 0.6%, a very narrow spread in a historical context. Also, note that all those yields are far below the current inflation rate of 1.5%.

UK government bonds are considered very safe as they are backed by the ability to raise taxes as well as print money. However, you can get a greater return through cash accounts at the moment.

Investors can earn even higher rates of interest by investing in emerging market government bonds, which pay around 4.5% a year, but these are more risky.

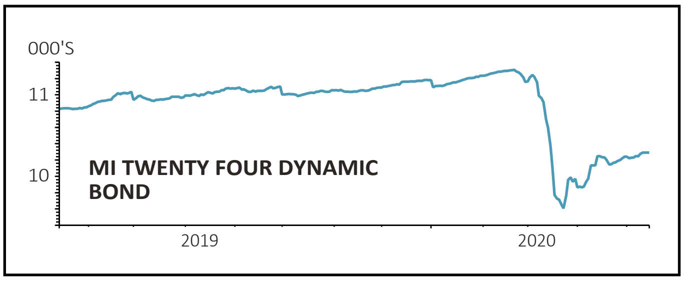
Looking further afield, corporate bonds are riskier than government bonds and pay a higher rate of interest related to the riskiness of the underlying company and its ability to service interest payments.

Because of the specialised skills needed to assess bonds, for most investors the best course of action is to get exposure through actively-managed funds or exchange-traded products that track major bond indices.

TWO BOND FUNDS TO BUY FOR INCOME

MI TwentyFour Dynamic Bond Fund (B57GX40)

Historic yield: 4.1%



TwentyFour is an independent fixed-income asset management firm, founded in 2008 by a group of leading specialists. TwentyFour Dynamic Bond Fund is highly diversified and has the flexibility and expertise to take advantage of prevailing market conditions as they change through time, rather than being pigeonholed into one part of the market.

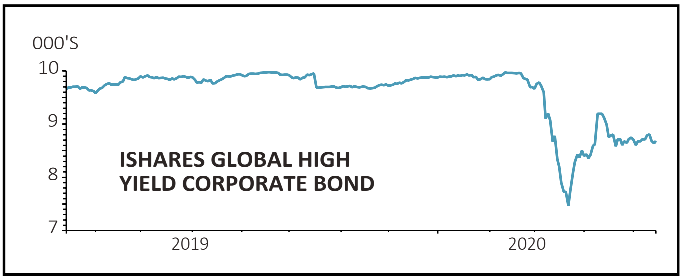
The fund has an excellent track record, delivering a better return than its benchmark and peers over the last three and five years with average annual returns of 1.3% and 2.3% respectively.

The managers were very active in April this year as sentiment improved and the bond markets opened up with a raft of new issues indicating healthy investor appetite. The team reduced their allocation to government bonds by 7% to 20%. This allowed the fund to take advantage of some attractive valuations in the corporate credit space.

Nationwide Building Society's bonds feature in MI TwentyFour Dynamic Bond Fund's portfolio

iShares Global High Yield Corporate Bond (GHYS) £86.75

Historic yield: 5.4%



This highly diversified fund, managed by exchange-traded fund provider BlackRock, aims to track a global developed markets liquid high yield index.

High yield corporate bonds are debts issued by companies with lower credit ratings than investment grade corporate and government bonds. The yields are higher to reflect the greater risk.

Investors in this product get exposure to the debts of over 1,300 companies, across all sectors of the global economy. Spreading risk in this way helps to cushion the impact on the portfolio if one or more of the companies goes bust.

High yield bonds are more sensitive than investment grade or government bonds to economic expansions and downturns, leading to greater potential for capital gains and losses.

OTHER TYPES OF INVESTMENTS THAT PROVIDE INCOME

Alternative asset classes like infrastructure and property have always been a way for investors to access stable income streams.

While businesses cut dividends as their revenue dries up and certain bond yields plummet alongside interest rates, alternative assets are becoming one of the few places where income remains relatively intact.

Infrastructure can be a good source of income. In the current environment, investors might want to look for funds that invest in essential, government-backed assets like schools, hospitals, critical gasworks and energy transmission, rather than demand-led infrastructure like rail, roads and airports.

For property, the areas of the sector seemingly most secure in terms of income are social housing and healthcare real estate assets that remain vital in the current crisis with rental income largely intact unlike areas such as retail or offices.

Arguably the best way to invest in infrastructure is through investment trusts because they are not subject to the whims of daily dealing like open-ended funds. This is important because a lot of infrastructure and property trusts will most often hold real assets that are hard to buy and sell quickly.

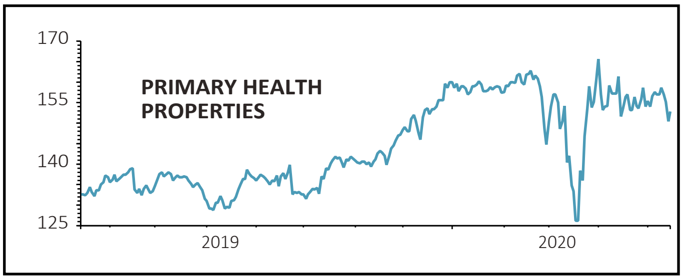
These assets do carry risks which are different than if you were investing in shares of companies, and these risks could potentially impact the dividend yield.

In terms of infrastructure, the biggest risk is that the government breaks or renegotiates contracts or nationalises assets. A more likely risk is that the operators of assets encounter financial difficulties. For property, tenants being able to pay rent is still a risk, while the social housing sector in general has been criticised by its regulator for various issues including health and safety.

TWO ALTERNATIVE ASSET INVESTMENTS TO BUY FOR INCOME

Primary Health Properties (PHP) 155.2p

Historic yield: 3.4%



The group is invested in nearly 500 primary healthcare facilities in the UK, let on long-term leases. It recently agreed to buy 20 purpose-built medical centres, located throughout England and Wales, for £47m with the company also conditionally contracted to buy a further two centres for approximately £7m.

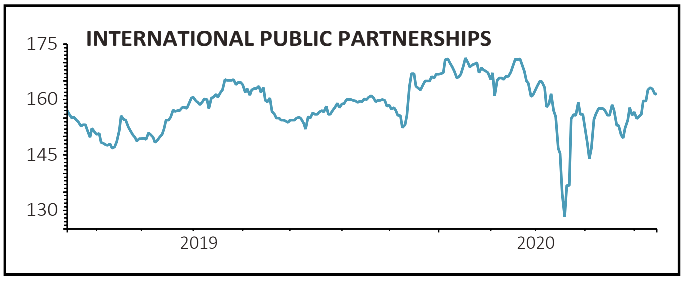
These assets are rented to GP practices, the NHS and pharmacies with 91% of rental income being Government-backed.

Given the need to reduce the pressure on the NHS these types of facilities are likely to be a priority for governments of whatever stripe in the UK.

Across the existing holdings, 98% of rents for the second quarter have been collected which speaks to the resilience of the rental income and underpins the company's commitment to a progressive dividend policy. This makes a yield of nearly 3.5% attractive even if the shares trade at a 54% premium to net asset value.

International Public Partnerships (INPP) 161.6p

Prospective yield: 4.6%



Core infrastructure investment trusts look to be trading on attractive yields given their long-term, government-backed income streams and high degree of inflation linkage.

One product that should offer reliable income in this space is **International Public Partnerships (INPP)**, which looks better placed than some other trusts in the sector as most of the assets in its portfolio are essential and not demand-led, and so the income from them should in theory be more secure.

The portfolio is also well-diversified and the FTSE 250 trust recently reiterated its 2020 dividend target of 7.36p, putting it on a 4.6% prospective yield.

Investing in over 100 projects across the UK, Europe, North America and Australia, its portfolio includes public private partnerships for schools, hospitals and even police stations, as well as energy transmission cables and megaprojects like the Thames Tideway Tunnel.

The Blackbird Leys Health centre project backed by International Public Partnerships

THE GREAT DIVIDEND CRISIS WHAT CAN INCOME INVESTORS DO?

The old order of dividend-paying companies has been overthrown by the coronavirus pandemic. The task now, writes James Dow, co-head of Baillie Gifford's equity income strategies, is to take a long hard look at the potential winners of the future

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

Unprecedented. That is the only word to describe the ongoing collapse of corporate dividends. At the time of writing, UK dividends are forecast to reduce by 62 per cent this year compared to a drop of 20 per cent globally in the Great Financial Crisis just over a decade ago.

Behind the collapse we have witnessed British banks, which constitute 13 per cent of dividends in the UK market, cancel their payments indefinitely. Rightly they have been instructed to conserve cash in order to survive the economic fallout from the coronavirus (COVID-19) pandemic. Meanwhile BP and Shell, which together constitute 19 per cent of the UK market's income, seem likely to cut their dividends unless oil prices recover sharply.

We saw dividends slashed by banks and oil producers during the Great Financial Crisis, but we did not simultaneously witness dramatic cuts across other sectors. In this crisis we have already seen several retailers cancel their dividends – again understandable given that many currently have no revenues. Likewise restaurants, hotels, airlines, travel companies, manufacturers: the list is as wide as it is deep. Even Real Estate Investment Trusts (REITs), which exist primarily to provide an income stream to investors, are suspending their dividends in the face of drastic reductions in the rents they are managing to collect.

Equally shocking is the speed of the reversal: often dividend payments proposed only weeks ago are being withdrawn from Annual General Meeting schedules in April and May. Again, unprecedented. What on earth can be done by dividend investors

in the face of this crisis? Whether they are individuals investing on their own account, or income fund managers serving the charities, universities, and savers of all descriptions who rely on dividends to finance their expenses, our views are the same.

Let's start with what we think they should not do. There will be a great temptation in the weeks and months ahead for dividend investors to trade into high-yielding stocks to 'plug the income gap'. Wherever a company has withdrawn its dividend and there is a hole in the investor's income stream, there will be an impulse to sell that company and reinvest the capital into another high-yielder, whether that be an oil company, a retailer, a tobacco company or a REIT, most of which now trade on high dividend yields.

In our view, this is a mug's game. Many of these seemingly high-yield dividends will prove to be a mirage. In the current environment there is unprecedented uncertainty about which companies will pay their dividends and which will not. Selling a dividend-cutter to buy a company which subsequently reduces its dividend will simply incur trading costs. To take an example that has already played out, selling Hammerson and buying British Land in its place would not have

'plugged the gap', as British Land too has now postponed its dividend.

There is also a high risk that trying to plug the income gap will end up destroying capital value. Why? Because earnings and dividends ultimately determine capital value, and many high-yielding companies suffering large drops in earnings and dividends will simply not, in our view, see a bounce-back to the levels they enjoyed before the coronavirus struck. For many such companies we anticipate a permanent impairment of their dividend paying ability.

It is important for dividend investors to remember that before COVID-19, high street shops and retail REITs were already under intense pressure from ecommerce. Oil companies were already fighting a losing battle against the long-term decline in hydrocarbon consumption. Banks were riding an unusually long wave of near-zero loan losses. Carmakers and airlines, viciously competitive industries for decades, were in most cases making no economic profit. In other sectors, many companies were simply over-distributing capital, whether in buybacks or excessively high dividends.

Once the world defeats COVID-19, these companies are highly unlikely to see their earnings and dividends resume at pre-crisis levels. Established trends are simply being accelerated by the current crisis. There will be no 'reversion to the mean'. Many companies are facing a dividend reset, not a V-shaped bounce.

Purchasing these troubled companies in the hope they will pay high dividends that plug the gap is therefore a doubly dangerous game. Not only is the dividend uncertain in the near-term, but as investors digest the reality of these companies' permanently impaired earning power and dividend-paying ability, their capital value post-crisis is unlikely to rebound. This is true risk – the permanent impairment of capital value.
What about the less cyclical high-yielding sectors that income investors have traditionally turned to, such as utilities, tobacco, and telecoms companies? Unfortunately these are mature sectors, fraught with regulatory risk, and with weak long-term growth prospects. They may offer some near-term security of income. But the investor who piles into these sectors to plug this year's income hole will face the near-certainty of very dull long-term profit growth. It is not a coincidence that many companies in these 'low-risk' sectors, from Vodafone to Centrica, have failed to deliver profit growth over long periods – and in many cases have had to rebase their dividends.

Now for the good news. Happily, there is also a huge opportunity in the current environment. It does, however, require the right mindset.

The beauty of equity markets is that, as an active investor, you can avoid the companies and business models of yesterday and invest instead in the shares of the future. That may limit your dividend income in 2020, as these companies have a lower yield than others which are ex-growth. But in the long-term, if you find these companies, it is likely to pay off in far higher levels of income, together with strong capital appreciation.
For every company facing a prolonged period of troubled times, there is another for which COVID-19 will ultimately prove transitory. Great companies with relevant business models will undoubtedly see earnings and dividends bounce back.

Well-run insurance companies, for instance, will continue to play a vital role in protecting policyholders against disasters – and the value of that insurance may well be higher in a post-pandemic world. Innovative manufacturing companies, with products that genuinely enhance the efficiency of their customers, will see their earnings bounce back too.

Delivery companies will find their services in ever-greater demand. Restaurants which are happy to

deliver as well as host diners will surely thrive. Even in the property sector dividend investors can anticipate that well-invested residential assets, in a post-virus world of Zooming and flexible home-working, will generate solid rental income.
The challenge is to make sure that you, as an investor, or else your dividend fund manager, exercise the discipline to invest in these businesses of the future, rather than clinging to the high-yielders of the past. Even if doing so means moderating dividend income in the short term.

The question for dividend investors to ask therefore is not "What companies can I buy to plug this year's income gap?" It is rather: "What companies do I believe have a strong future once this crisis has passed?"

Our mantra as income managers at Baillie Gifford is "long-term income, not short-term yield". The yields on the funds we manage are by no means the highest in the income universe, because we have been longstanding advocates of sacrificing short-term yield in the pursuit of better long-term income and capital growth. We have shunned many of the sectors and companies that are now struggling profoundly.

Be demanding of the businesses you invest in. If you're investing for long-term income, set a high bar that only accepts genuine growth businesses. In our experience companies that can grow their earnings to support higher dividends in five or ten years' time are far more rewarding investments than short-term 'yield plays'. That is why we largely avoid the mature, ex-growth companies that have propped up the market's yield.

In assessing dividend resilience, we aim to avoid companies that are capital-intensive, or highly cyclical, or are simply distributing cash in a way that is not in the long-term interests of their business. We use a checklist for dividend dependability which penalises companies for these and other weaknesses. Discipline in observing these risks, focusing instead on companies with stable, cash generative business models, will greatly enhance your long-term income and capital prospects.

Despite our best efforts we still make mistakes. An example is Bankinter, the Spanish retail bank. As the highest quality bank in Spain we had foreseen it taking market share from its weaker local competitors. But we now expect that government support for the entire banking sector will put pressure on balance sheets and dividends for a long period of time. We mis-calibrated the regulatory risk here, and we do not anticipate that Bankinter's recently-suspended dividend will 'bounce back' any time soon.

We therefore sold our holdings and, in re-investing the proceeds of our sale, we asked ourselves the question posed above: which companies have a strong future once this crisis has passed? We invested into companies where we have great confidence in their long-term prospects, even if they don't have the same high yield that Bankinter had before recent events. We added to our holdings in Deutsche Börse, Nestlé and Roche, for example.

Do be careful about the UK market. A UK-only approach to dividend income is extremely narrow. There are roughly 250 dividend-paying companies in the UK, not a huge number for an active stock picker, and the market is dominated by companies in structurally challenged industries. Many are paying out too much in dividends rather than re-investing for the future.

Worldwide, there are about 4,500 dividend paying shares that you, or your dividend fund manager, can choose from. Many of these are great companies with strong business models that will remain relevant for years to come.
Again, you have an opportunity to take the long-term view. Going global, as we did for our own funds in 2011, will allow you the chance to escape

from the risks of the UK oil companies, the banks, the high street retailers, and the other troubled companies that make up so much of the UK dividend sector. Instead you will become free to choose the well-run insurers, the value-add manufacturers, the delivery companies and so on that will thrive in the future. Your portfolio will be far more likely to bounce back from this crisis. Our own experience has been that going global is incredibly liberating and rewarding.

Conclusion
Dividend investors can survive this unprecedented setback. They can do so by exercising the discipline of a long-term approach and actively picking the winning companies of the future. With a global portfolio of these names, there is a terrific opportunity for your income and capital to bounce back stronger than ever.

JAMES DOW
James was appointed co-head of the Global Income Growth Team and co-manager of The Scottish American Investment Company P.L.C. (SAINTS) in 2017. He joined Baillie Gifford in 2004 on the Graduate Scheme and became an investment manager in our US Equities Team. Previously, James spent three years working at The Scotsman newspaper, where he was the Economics Editor. He is a CFA Charterholder, graduated MA (Hons) in Economics-Philosophy from the University of St Andrews in 2000 and MSc in Development Studies from the London School of Economics in 2001.

AIRLINE EARNINGS RECOVERY PREDICTIONS LOOK TOO OPTIMISTIC

ANALYSTS THINK EARNINGS WILL QUICKLY REBOUND BUT THE MARKET DOESN'T SHARE THIS CONFIDENCE

By **Yoosof Farah** Reporter

Cheap prices to buy or lease an aircraft, low bowering costs, cheap fuel prices and reduced labour union membership would normally be music to the ears of airlines. Sadly they are unable to fully take advantage of these benefits as the coronavirus has essentially grounded the airline sector.

Many countries are still in lockdown and have closed their borders. Any passengers still able to travel are likely to face a 14-day quarantine once they arrive at their destination. Social distancing measures in force mean airlines should leave, at a minimum, a third of the plane empty on every flight.

Customer demand has fallen off a cliff and the International Air Transport Association says it won't recover for five years. However, financial analysts forecast that most airlines will recover all their lost earnings in just a few years. Given how the stock market is forward-looking, is now a good time to buy the sector while sentiment is so poor? Let's weigh up the facts and consider how the industry might evolve.

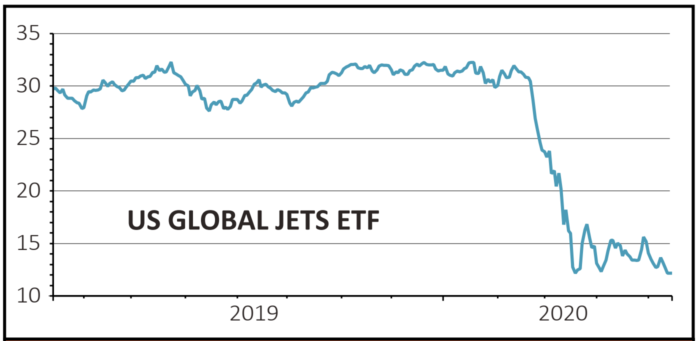
NEW WAY OF LIFE FOR AIRLINES

This article is the first in a series examining how various sectors could look in a post-coronavirus world, following on from our recent feature where we considered the potential changes for consumers and companies once the pandemic has passed.

To get an idea for how airlines could recover from the current crisis, it's worth looking at the last two major events to rock the industry – the SARS outbreak and 9/11.

SARS involved the outbreak of a highly

contagious and deadly virus. During this period globally airlines lost an estimated $7bn, though most of these were Asia Pacific carriers. Revenue dropped 35% when measured on a per kilometre basis, according to Bloomberg, with international passenger traffic in 2003 taking seven months to recover to levels reached when the SARS outbreak



US Global Jets ETF tracks a basket of airline operators and manufacturers from around the world. Its shares have fallen 62% this year with no participation in the recent market recovery rally

first began.

As for 9/11, a tragedy which shook aviation to its core, demand around the world took three years to return to normal levels, with the massively heightened security measures taking time to get passengers to lose the grip of fear they had about flying again.

FORECASTS FOR AIRLINE EARNINGS

Consensus forecasts compiled by Refinitiv for the four London-listed airlines show a big decline in 2020, with the makings of a recovery in 2021 before getting back to pre-coronavirus levels by the end of 2022. We've excluded Jet2 owner **Dart (DTG:AIM)** as its earnings forecasts also include a contribution from its land-based distribution business and so don't tell the full picture for expected aviation trends.

Wizz Air (WIZZ) looks like it could hold up best according to forecasts, with earnings before interest and tax (EBIT) for the year to 31 March 2020 coming in at €409m, before plunging 82% to €74m by March 2021 and then rebounding even higher to €479m in 2022.

For **Ryanair (RYA)**, whose financial year also runs to 31 March, EBIT was €1.13bn in its 2020 results, it is forecast to record a €212m loss in 2021 and then dramatically rebound in 2022 to positive EBIT of €1.20bn.

For the year to 30 September 2020, **EasyJet (EZJ)** is expected to report an EBIT loss of €578m, before recording an EBIT gain of €221m in the year to September 2021 and €524m in 2022, higher than the €466m recorded in its 2019 results.

As for **International Consolidated Airlines (IAG)**, with its financial year running to 31 December, in 2020 it is expected to report an EBIT loss of €1.3bn. But by the end of 2021, this is forecast to recover to an EBIT gain of €2.5bn, with a roughly 14% increase to €2.9bn by the end of 2022.

SHARES STILL IN THE DOLDRUMS

At the moment investors remain very cautious about owning airline stocks. The sector has not started to show the levels of share price recovery seen in many other industries.

The market is very worried about the airline sector's ability to get through the current crisis and so investors are reluctant to take on the high risks of buying shares in this part of the travel and leisure industry.

Airline share price losses year-to-date

STOCK	SHARE PRICE 2020
United Airlines	-78%
IAG	-74%
American Airlines	-69%
Delta	-68%
EasyJet	-65%
Air France-KLM	-62%
Lufthansa	-55%
Southwest Airlines	-55%
Ryanair	-43%
Wizz Air	-35%

Source: Shares. Data to 15 May 2020

Analysts expect earnings to rebound sharply over the next two years, yet will airlines survive long enough to experience this financial recovery?

Weighing on sentiment is the fact that world-famous investor Warren Buffett has just sold all his airline shares, sending a message to the market that the sector is toxic.

Warren Buffett has just sold all his airline shares, sending a message to the market that the sector is toxic

Airline cash burn on full grounding

AIRLINE	Monthly cash burn	Months of liquidity left
Lufthansa	€1bn	4
EasyJet	€255m	8
IAG	€899m	10
Air France-KLM	€750m	15
Wizz Air	€97m	15
Ryanair	€235m	16

Source: Morgan Stanley, 14 May 2020

ANOTHER PRICE WAR?

Wizz Air has remained optimistic in its commentary on the state of affairs and is reportedly prepared to offer very low fares to stimulate the market.

Ryanair also believes there could be another price war this year. In its full year results on 18 May, the Irish carrier said: 'When airlines return to scheduled flying from July, the competitive landscape in Europe will be distorted by unprecedented quantums of state aid (in breach of EU rules) under which over €30bn has been gifted to Lufthansa, Air France-KLM, Alitalia, SAS and Norwegian among others.

'We therefore expect that traffic on reduced flight schedules will be subject to significant price discounting, and below cost selling, from these flag carriers with huge state aid war chests.'

SHOULD YOU INVEST IN THE SECTOR?

The big question mark is whether or not earnings forecasts, even for the seemingly most resilient airlines, are too optimistic? We think so.

The risks are far too high to warrant putting money into this sector at the moment.

THE NEW 'NORMAL' FOR AIR TRAVEL

There will have to be profound changes to the way we travel, particularly by air, at least until a vaccine for this coronavirus is successfully developed and mass manufactured.

Going through airport security will take longer, while a crackdown on carry-on baggage (to reduce the chances of them coming into contact with other passengers) will mean more checked baggage and the accompanying fees, as well as a slower process of putting baggage through with handles needing to be wiped.

Air fares could go up following a short period of low fares to reenergise the sector, particularly if the middle seat does end up being left empty.

Clearly airlines will have to find a proper way to fill all their seats and not operate on a 67% passenger load factor (how full the plane is) by leaving an aisle empty, particularly given than 77% is the average breakeven load factor for airlines, or roughly 80% for the budget carriers who typically charge lower fares.

Ryanair boss Michael O'Leary says wearing masks can solve this problem, though whether or not that's true is debatable.

If people in the investment world are correct, in three years' time aviation will more or less be back to normal. But that's seemingly based on what we know now. During this pandemic we seem to be learning new things every day.

RUSS MOULD
AJ Bell Investment Director

Why the FAANGs are flying high

What's beyond US tech dominance and will it continue?

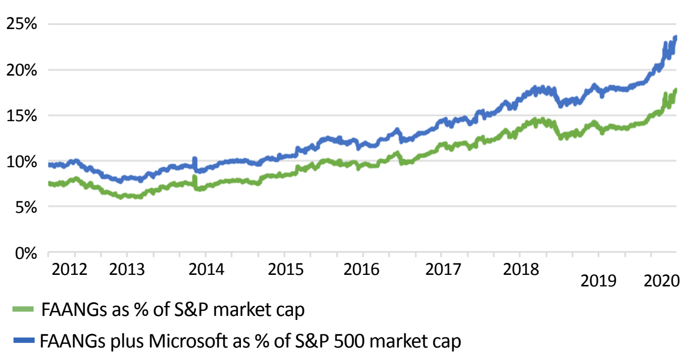
The best performing stock in the S&P 500 in 2020 to date may be a gold miner, Newmont, but 10 of the top 20 names are tech stocks of various colours and five more are pharmaceutical or biotech plays.

Two – Netflix and Amazon – are part of the FAANG quintet, along with Facebook, Apple and Google's parent Alphabet. All five names are up on the year, compared to a 13% drop at the time of writing in the S&P 500.

As a result of their stunning long-term performance, these five firms are now worth almost 18% of the S&P 500 on their own (and twice as much as the entire FTSE 100).

A sixth tech name, Microsoft, is the world's biggest firm by market cap, a fraction ahead of Apple. Throw that into the mix, and this sextet is currently being valued at $4.3trn, or 24.7% of the S&P 500.

SIX TECH NAMES DOMINATE THE S&P 500



Source: Refinitiv

Put another way, over the past 12 months, the S&P's market cap has grown by $187bn. These six stocks have added $1.5trn, which does not say much for the other 494 members of the American benchmark and begs several questions for anyone with exposure to US equities:

- Is such a narrow-looking market as healthy as it seems?
- Do holders of passive, or tracker, products know that their money is so exposed to just six stocks, when what they will really be seeking is diversification?
- Does this help or hinder the active managers whom investors pay to generate outperformance, if six stocks are so dominant?
- Will the FAANG stocks, plus Microsoft, continue to perform so well in both operational and share price terms? Or will margins and valuations revert to the mean over time, permitting stock market or technology new leaders to emerge?

SIX OF THE BEST

It is easy to see why the FAANGs are still doing so well, including in 2020, even if they are all ultimately very different businesses.

They are essentially digital, flexible, platform businesses that can control costs, maintain service standards and still fulfil customer needs even during these difficult times.

Their value lies in intellectual property, not physical assets (even if how they obtain and use some of the IP, in the form of customer data, remains a bone of contention for some).

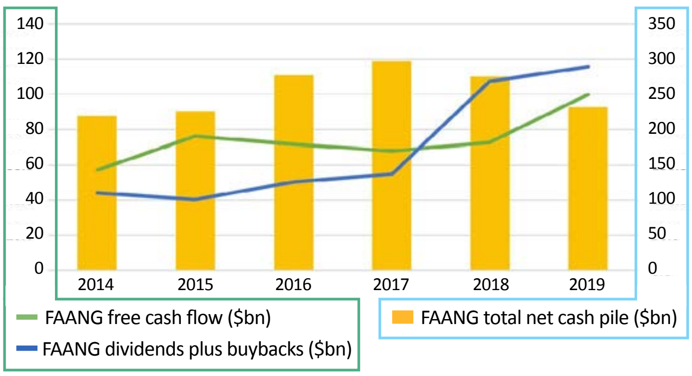
They have strong balance sheets (with Netflix the exception), as evidenced by a combined net cash pile of $212bn, a figure that has barely changed since the end of 2014 despite $290bn in capex and $450bn in dividends and share buybacks.

This is evidence of their powerful profit margins

RUSS MOULD
AJ Bell Investment Director

(average 17.7% in 2019) and strong free cash flow, which has come to $485bn in total since 2014 (even though Netflix has contributed only outflows).

FAANGS CONTINUE TO GENERATE PLENTY OF CASH



Source: Company accounts

Companies generally falter because customers and clients either get fed up with them and seek an alternative or their bounteous margins, cash flow and returns on capital attract competition, which relentlessly chip away at all three. While Netflix probably faces the greatest number of new rivals, the others still look difficult to dislodge.

PRICE AND VALUE

So far so good. But then how much of this is news? Not much, judging by the stellar share price performance and valuations. The FAANGs' monster market cap means that they trade on 37 times forward earnings for 2020, although forecast rapid earnings growth of 34% for 2021 and 19% for 2022 means that drops to 23 times in two years' time.

Here is the nub of the issue. If those forecasts prove accurate, the FAANGs could well remain all-conquering. But consider that aggregate net income fell 2% in 2019 and is forecast to drop 4% in 2020, as Amazon piles on the costs and Alphabet and Facebook encounter a squeeze on advertising spending, and those growth estimates may look aggressive. That would leave buybacks and dividends exposed, as they exceeded total free cash flow generated in 2018 and 2019.

That still begs the issue of what could lead to the sort of earnings disappointment that persuades growth-hungry investors to move on, if customers still seem happy to pay for the services on offer (or accept access to their data as payment in kind, in certain cases)?

Regulation is still a possible source of difficulty, with Amazon set to be hauled before Congress to explain how it uses data and Apple, Alphabet and Facebook all still looking over their shoulders from prior disputes with the taxman or anti-trust regulators or privacy campaigners. How politicians react remains as unpredictable as ever.

Perhaps the biggest potential challenge could come from a different source: inflation. Investors warm to growth stocks – and pay high multiples for them – because there is little reliable growth around.

If government and central bank stimulus programmes designed to fight the virus do lead to an unexpected bout of inflation, cyclical growth will be just as easy to find as secular growth, if not easier, and it will come at a fraction of the price. But then many famous names have fallen from favour while waiting for 'value' as a style to return to it, have they not?

JUST LIKE THE REST OF THE US MARKET, FAANGS ARE EXPECTED TO SHAKE OFF 2020'S LOSS OF MOMENTUM

Price-to-earnings ratio

	2020E	2021E	2022E
Amazon	119.3	60.8	40.4
Netflix	67.1	49.9	38.4
Alphabet	33.2	24.9	21.2
Apple	25.3	20.5	18.7
Facebook	29.0	21.7	18.6
Average	**37.0**	**27.6**	**23.3**

Source: Company accounts, consensus analysts' forecasts, Zack's, NASDAQ

THE INVESTMENT CASE FOR MEDICAL CANNABIS

THE CANNABIS PLANT traces its medical roots back to ancient Indian, Chinese, Egyptian and Islamic cultures. It is one of the world's oldest medicines. Indeed, in the UK, it was used as a medicine until 1871, reputedly by Queen Victoria who was a regular user for discomfort.

Nowadays, cannabis has gained a new lease of life. This once-forgotten plant has been rediscovered as an effective treatment for a wide range of symptoms and illnesses. Medical cannabis is a movement that has now gone global, buoyed by the tailwinds of favourable legislation, social acceptance and medical recognition. As this trend gathers pace, getting on the front foot of this global megatrend could yield tremendous results for those who can spot this investment opportunity today.

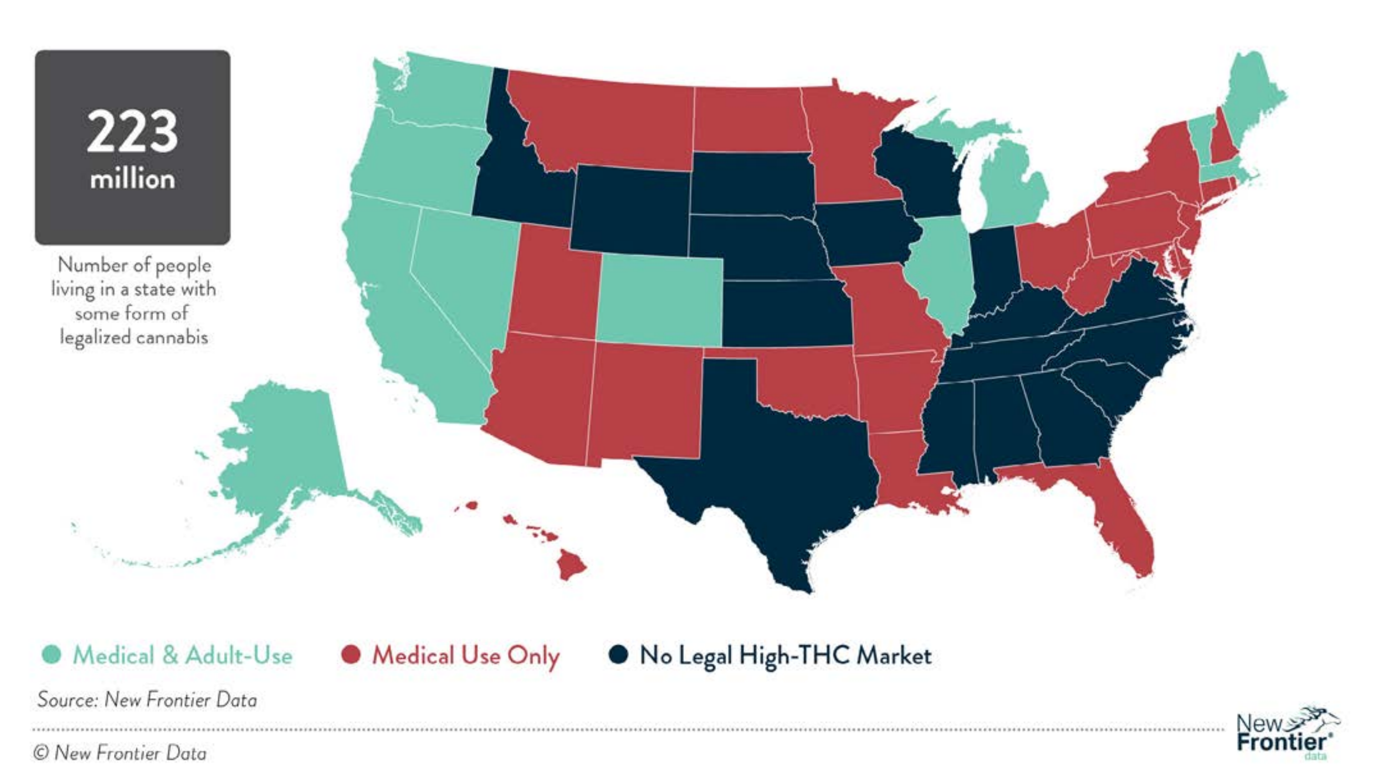
WHAT IS MEDICAL CANNABIS?

We're only just beginning to understand the full power of cannabis. Reports of parents going as far as "smuggling" cannabis medication into their countries to treat their children suffering from seizures have touched our hearts. Cannabis has already been shown to help with sleep, anxiety, pain and appetite. In the pharmaceutical world, we've already seen it used to treat symptoms associated with cancer, multiple sclerosis and epilepsy.

SIZE OF THE MARKET

According to New Frontier Data (NFD), a US-based cannabis intelligence firm, an estimated 1.2 billion people worldwide suffer from medical conditions for which cannabis could have therapeutic value. Adoption of

STATE LEGALISATION OF CANNABIS IN THE UNITED STATES



medical cannabis treatments by even a small proportion of that population would create a massive market.

In the US, calls for complete legalisation have been increasing. Today, 33 states have full medical cannabis programmes. That's compared to 13 states just 10 years ago. In the rest of the world, calls for expanding medical access are reverberating. Globally, now, 55 countries have approved cannabis for legal medicinal use.

But legalisation is just one side of the story. People power is another. According to a recent NFD survey, 94% of medical cannabis patients reported that cannabis treatments improved their conditions. The same study found that if just 10% of the world's population suffering from conditions for which cannabis is commonly used were to begin using cannabis therapeutically, this would create a market of more than 100 million patients.

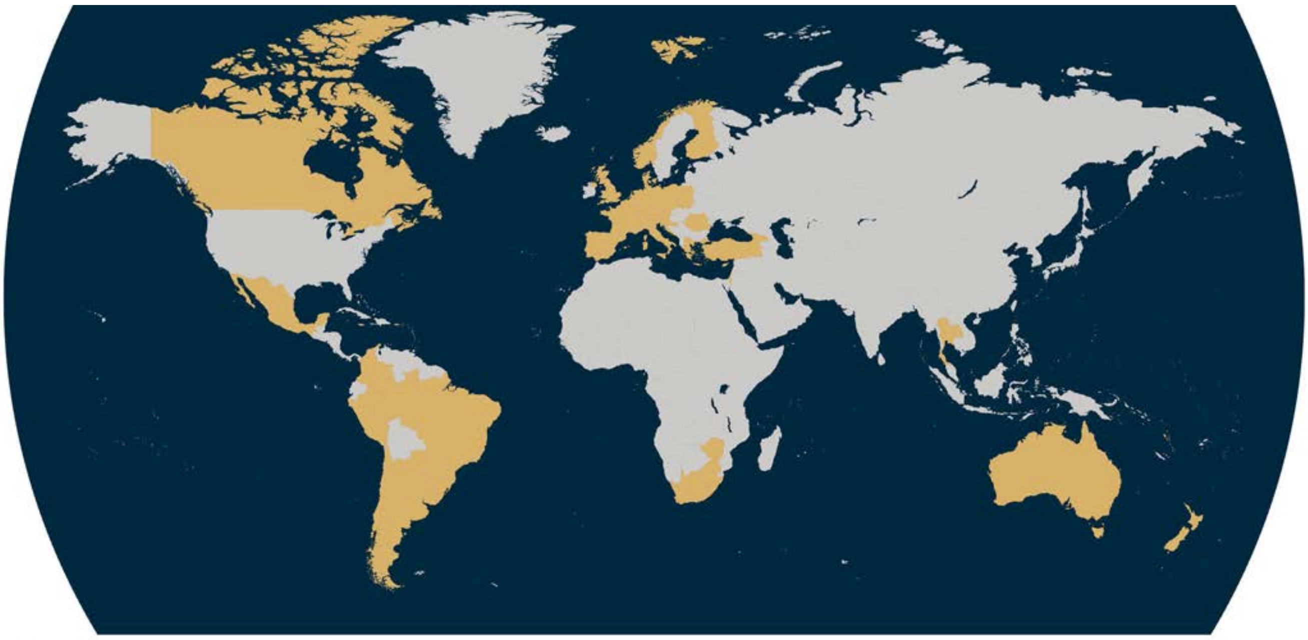
Rapid growth

For these reasons alone (but for many other developmental reasons) the industry is set for rapid growth in the years ahead. In the US alone, medical cannabis sales are expected to climb by 16.8% through to 2025 and achieve a market size of 13 billion US dollars. Globally, the medical cannabis industry is expected to be worth as much as 56 billion US dollars by 2025 corresponding to a global growth rate of 22.8% between 2020 to 2025.

For investors today, now is the time to think ahead, dare to be progressive and participate in what may become one of the biggest growth stories of our time.

The **Rize Medical Cannabis and Life Sciences UCITS ETF** seeks to invest in a diversified basket of global biotech/pharmaceutical companies that are developing and providing patients with new-form medicines derived from the cannabis plant.

CANNABIS LEGALISATION AROUND THE WORLD



Legal Medical and/or Adult Use Cannabis

Source: New Frontier Data

New Frontier data

THE SMALL CAP BIOTECH STOCKS MAKING 200%+ RETURNS THIS YEAR

Companies hoping to combat coronavirus have soared on the stock market; which ones are still worth buying?

By **Martin Gamble** Senior Reporter

UK biotechnology shares have provided some of the best returns in the market over the last six months, driven by a plethora of regulatory news about new products aimed at tackling coronavirus.

Shareholders are rightly asking whether the strong share price performances have gone too far in relation to the fundamentals, or maybe in some cases have further to run. We will now talk through the importance of the news flow and provide some guidance on which stocks you should buy or sell.

STELLAR RETURNS FROM BIOTECH/HEALTHCARE STOCKS THIS YEAR

STOCK	GAINS SINCE 1 JAN 2020
Novacyt	2270%
Synairgen	853%
Avacta	703%
Genedrive	671%
e-Therapeutics	380%
Hemogenyx Pharmaceuticals	279%
Omega Diagnostics	282%
Byotrol	254%
Motif Bio	218%
Open Orphan	180%

Source: SharePad. Data to 15 May 2020
London-listed companies

It is important to stress this is a very high risk area of the stock market so do not invest any money you cannot afford to lose.

BIGGEST SHARE PRICE GAINS

The immediate priority in dealing with the pandemic has been to identify patients who have the disease in order to isolate them and trace their contacts. Just as importantly for coming out of lockdown will be to get an accurate measure of how many in the population have already had the virus.

Therefore it shouldn't be surprising to see the biggest share price gains in the companies which are active in developing and manufacturing coronavirus testing technology for use in hospitals and for the general public.

INVESTORS FLOCKED TO NOVACYT

Early out of the blocks was Paris-based diagnostics company **Novacyt (NCYT:AIM)** which launched a coronavirus test kit on 31 January. It recently said it has now been contracted to deliver £90m worth of testing kits with regulatory approvals in over 16 countries.

This includes a contract with the NHS to supply 288,000 tests per week for a six-month period beginning on 4 May. The firm has also applied to

the US Food and Drug Administration (FDA) for so-called Emergency Use Approval (EUA) for its test kit. This would allow US laboratories to use the test on a temporary basis.

On 8 April the company announced a collaboration with **AstraZeneca (AZN)** and **GlaxoSmithKline (GSK)** and the University of Cambridge. Novacyt is providing its test to generate results for a new laboratory exploring alternative reagents to overcome current supply shortages.

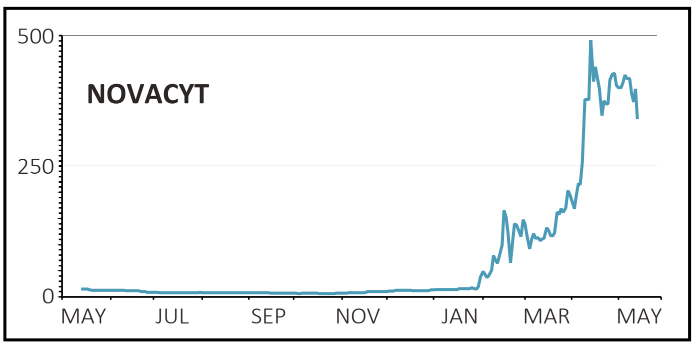
The shares have risen more than 50 times over the last few months and while the company has quantified the revenue generated from selling test kits, the shares have run well-ahead of the news flow, and we would be cautious about chasing the shares at current levels. Investors already holding the stock might want to think about locking in some profit.

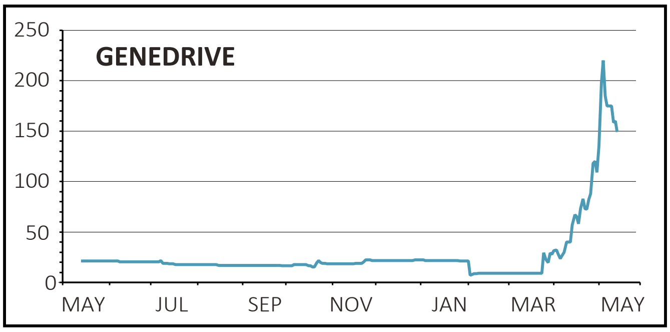
GENEDRIVE HAS MADE INVESTORS RICH

Being first is good, but so is bringing a more effective test to the market. Some analysts believe this is the case with diagnostics firm **Genedrive (GDR:AIM)** which has developed a one-step, ready-to-go freeze dried test, which has the dual advantages of 'ease of use' and transportability without the need for specialised cold storage.

The company has built capacity to be able to manufacture 10,000 tests per hour, which will go live before the end of May. In addition the company is working towards launching a point-of-case test for use outside of hospitals, in clinics or other centres where rapid testing is required.

Its share price has gone from 9p on 24 March to currently trade at 163.5p. To illustrate the massive gains enjoyed by investors, a £1,000 investment less than two months ago would now be worth £18,166.





WHY WE LIKE AVACTA

One of our favourite shares in the testing space is UK biotherapeutics company **Avacta (AVCT:AIM)** because we believe its rapid testing strip might prove to be a game-changer.

On 8 April it announced a collaboration with Cytiva to develop a rapid 'point of use' coronavirus test which can give results in minutes. The product, which can be used at home with no medical knowledge, looks similar to a pregnancy test strip but saliva is used instead of urine. This will make it more easily accepted by the public and potentially drive demand.

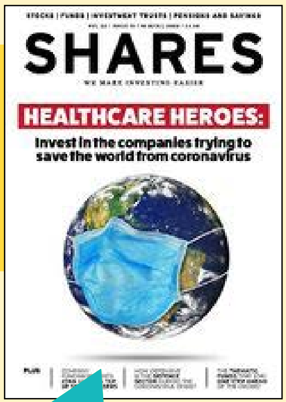
Only two weeks later the company announced it was 'well ahead of schedule' in its development. The point of care market is estimated to be worth more than $1bn where current supply cannot meet the demand.

On 5 May the company announced a partnership with US firm Adeptrix to develop a high throughput test using mass spectrometers in hospitals, contributing significantly to the increase in global testing capacity.

By adapting unutilised mass spectrometers, hundreds of tests can be analysed by a single technician in a day, increasing capacity compared with existing techniques which detect genetic information of the virus and are very labour intensive.

Avacta, which will be paid a royalty on sales, said it expected to be ready for commercial launch very soon. Analysts believe hundreds of millions of tests will be required every month for a long period, even after the pandemic has passed.

DID YOU FOLLOW OUR SUGGESTION TO BUY AVACTA ON 16 APRIL?



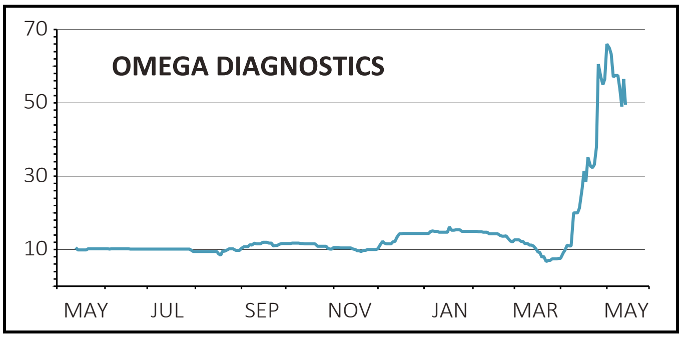
You could have doubled your money as the stock has gone from 68p to 144.75p.

FLOCKING TO OMEGA

Getting a good, accurate measurement of the number of people who have had coronavirus will be critical in safely reopening the economy, and the Government has formed the UK Rapid Test Consortium to develop and manufacture an antibody test.

Diagnostics firm **Omega Diagnostics (ODX:AIM)** announced it was part of the consortium on 9 April. Omega's kits are also similar to the pregnancy strip but the patient provides a blood sample. The test will allow individuals to potentially go back to work if they are found to have already had the virus.

On 27 April Omega's shares jumped 46% after its antibody test achieved a CE-Mark, indicating the product could be sold in Europe and clearing the path for revenues to be generated elsewhere around the globe.



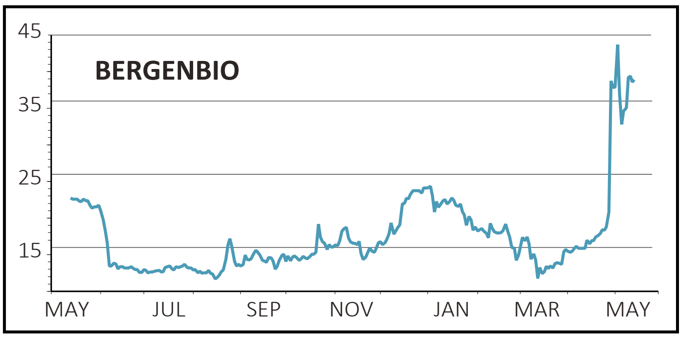
BERGENBIO IS THE NEXT BIG STOCK

There are a number of firms testing existing drugs which were intended to cure other known diseases. This could mean getting a vaccine to market much faster than trying to develop a new vaccine from scratch.

US pharmaceutical company Gilead Sciences has been grabbing most of the headlines with its Ebola drug Remdesivir.

However we think one of the most exciting opportunities investors should take a closer look at is Oslo-based biotechnology company Bergenbio which announced on 28 April that its drug bemcentinib had become the first candidate drug to be fast-tracked to rapidly investigate its efficacy against coronavirus.

The study is being funded by the UK Department of Health and Social Care and UK Research and Innovation. Testing will cover 120 people across six NHS hospital trusts and be performed as a double-blind study.



This means half of the patients will get the drug and half will get a placebo, and provides a statistically more robust result.

The key advantage of the drug is that it is taken orally once a day and has shown to be safe and well-tolerated in hundreds of patients, in many cases over a number of years. The company raised €45m of new money on 5 May to accelerate the commercialisation potential of the drug.

Bergenbio's shares should be available to buy on most of the main UK investment platforms under the code 'BGBIOO'. They are listed on the Oslo market which introduces some foreign currency exposure, adding to the risks of investing in this promising company.

OTHER NAMES CATCHING INVESTORS' ATTENTION

Treating the body's response to the virus and potentially keeping more patients out of intensive care is another area of treatment being explored by drug companies such as drug discovery firm **Synairgen (SNG:AIM)** which specialises in respiratory disease.

Synairgen is one of the best performing shares this year, up more than six-fold after a string of positive news announcements concerning its SNG001 drug which is capable of being delivered directly into the lungs with an inhaler.

The aim is to be able to treat patients earlier in their infection in a home setting, given that hospitalised patients will typically have had symptoms for an average of 10 to 11 days prior to admission. The results of the current trial are expected in June.

In similar fashion, **Tiziana Life Sciences (TILS:AIM)** announced the development of a new technology to treat patients who develop an uncontrolled immune response that can result in severe lung damage and respiratory failure.

Why don't stop losses always work?

They are meant to act as a trigger to sell a stock at a certain price

Could you explain why stop losses don't always work? I've recently had the experience of setting a stop loss only to see when I logged back a day or so later that the price had fallen through the trigger price and the bottom price and the holding had not been sold.
Keith Butler

Reporter **Yoosof Farah** replies:

When you make an investment, it's all about hope. But when you sell an investment, it's often about fear – fear about potentially forgoing further profits or fear that any existing losses could get worse.

One way to overcome those fears is using a stop loss order. This is a way of telling your investment platform provider that you want to get out of a stock if falls to a certain price or below. Investors use them as a sort of safety net to minimise losses.

HOW DO THEY WORK?

For readers who aren't familiar with stop losses, it's worth running through an example. Let's say you buy a stock at 100p and you decide that you don't want to keep it if it falls by 20% or more – so you would set your stop loss at 80p in this case.

Should your stop loss be triggered, an alert is sent to your investment platform provider to sell the shares at the best possible price.

As with the sale of any asset, a buyer is required. If the shares are in freefall on the back of a profit warning, for example, it can be difficult to find a buyer at the stop loss price, potentially leaving investors with a larger than anticipated loss. This is known as slippage.

In addition, it cannot be guaranteed that a stop loss order will be executed, for example in situations beyond an investment platform's control, or where market conditions happen to be particularly volatile.

STOP LOSS BENEFITS

There are merits to having stop losses in place. They can offer you a form of protection when the market falls, and also help take the emotion out of investing, which is useful if you are a risk-averse investor and/or more concerned about large losses. But on the flip side it does also mean you could miss out on gains if the stock recovers shortly afterwards.

A 2009 study by researchers at Lund University in Sweden comparing stop losses to a buy and hold strategy, using data from analysing the Swedish stock market, found that all stop losses – from 5% up to 55% – worked better than a buy and hold strategy.

TRAILING STOP LOSSES

As long as investors stay disciplined and aren't tempted to move their stop losses, it also found that trailing stop losses worked better. These work differently by simultaneously trying to help protect profit and limit losses.

Instead of setting a single point at which to exit a trade, if the

shares go higher the trailing stop will move upwards with it.

For example, someone could buy a stock at £40 and have a trailing stop loss of 20% which would be £32. If the share price rises to £60 then the trailing stop becomes 20% of that higher price which is £48.

WHEN STOP LOSSES GO WRONG

It's important to know, as mentioned above, that there are instances when stop losses might not be executed. In fact, it's a fairly common situation.

Say you hold shares in Company X and the current price is 400p. You decide to set a stop loss with a trigger level of 350p and a bottom price of 325p. That means if the price drops to 350p your platform provider will try and sell your shares, but only if they can get 325p or higher.

The main thing that could stop the order triggering is especially bad news between market sessions. So if the price closes at 400p, but the next morning Company X issues a trading update for example that says profits will be way less than expected, the price could open significantly lower than 400p.

If it opens lower than 325p then the platform provider won't be able to execute the stop loss because you've set a bottom price of 325p and that price is not achievable.

You can set a stop loss without a bottom price, but then you have zero protection on your order, so even if the price opened at 150p the next day, and you had a trigger of 350p but no bottom price, the provider would sell your holding at or around 150p.

Similarly, if the price drops especially quickly during a market session rather than overnight, typically due to severe company or economic news being released throughout the day, then it may drop too fast for your order to be executed.

SOME STOCKS ARE ILLIQUID

Another scenario is liquidity which is how easily you can trade a stock. If the stock you have a stop loss on is illiquid, then your provider may only be able to sell some of your holding if the price drops to your trigger. You may be left with a holding you don't want, that you can't sell in its entirely, and with the price dropping.

It may then drop below your bottom price, or even if it doesn't and there are liquidity issues, you could end up holding the stock even if the price is there.

DO YOU HAVE ANY QUESTIONS ABOUT MARKETS AND INVESTING?

Let us know if we can help explain how something works or any other question relating to markets and investing. We'll do our best to answer your question in a future edition of *Shares*.

Email editorial@sharesmagazine.co.uk with 'Reader question' in the subject line.

Please note, we only provide information and we do not provide financial advice. We cannot comment on individual stocks, bonds, investment trusts, ETFs or funds. If you're unsure please consult a suitably qualified financial adviser.

What can I put into a pension now I'm retired?

Our resident pensions expert deals with a query on SIPP contributions

I finished my last employment in November 2018 and that was when I made my last pension contribution. I opened a SIPP just before this and put in a small amount of cash.

I am effectively retired at 59 but living off cash savings and have recently received an inheritance and a matured endowment.

Can this money be used as part of my three previous years' pension allowance (subject to the amount I earned whilst still in employment) or am I now restricted to the minimum £3,600 limit of non-income related investment?

Mark

Tom Selby
AJ Bell
Senior Analyst says:

First of all let's just briefly recap how the pensions annual allowance works in the UK.

The amount you can save in a pension each tax year is controlled by the annual allowance – set at £40,000 for most people – and your UK relevant earnings. Specifically, HMRC rules say you can only contribute up to 100% of your UK relevant earnings into a pension during the tax year.

So if, for example, someone had UK relevant earnings of £10,000 in the current tax year, the maximum they could save in a pension would be £10,000 in that year (inclusive of tax relief).

Your annual allowance may be lower if you have triggered either the annual allowance taper or the money purchase annual allowance (MPAA).

The taper only kicks in if you have 'threshold' income above £200,000 and 'adjusted' income above £240,000. Where both income measures are breached, your annual allowance reduces by £1 for every £2 of adjusted income, to a minimum of £4,000 for those with adjusted income above £312,000.

You can read more about how the taper works here.

The MPAA is triggered if you flexibly access taxable income from your pension, and reduces your annual allowance to £4,000. You can read more about how the MPAA works here.

It is possible to 'carry forward' up to three years of unused annual allowances from the previous three tax years in the current tax year, but the amount you can save into a pension remains restricted by your UK

relevant earnings in the current tax year.

You must also have used up your entire annual allowance in the current tax year before carrying forward any unused allowances from previous tax years.

One important point to note is that anyone who triggers the MPAA loses the ability to carry forward unused allowances and you must have been a member of a UK pension scheme in order to use carry forward.

You can read more about how carry forward works here.

Where someone has no UK relevant earnings they can still pay into a pension, although the contribution limit is £3,600 a year.

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 information 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.

Lifetime ISA exit penalty cut – but what does it mean for savers?

We explain if you are eligible for a refund and how to get the money

The Government has temporarily cut the exit charge that savers pay when they withdraw money from their Lifetime ISA for anything other than buying a first home or reaching age 60, reducing it from 25% to 20%.

During the current crisis the Government has recognised that people might need to access their Lifetime ISA savings because they've seen their income fall.

WHAT WAS THE OLD SYSTEM?

Until now if you wanted to withdraw money from your Lifetime ISA you'd pay 25% of your withdrawal amount as an exit charge. This was intended to discourage people from dipping into this money, but also to stop people claiming the 25% Government bonus and then taking the money out.

For example, if some paid in £4,000 in a year and got a £1,000 Government bonus, and that same person withdrew the entire £5,000 they'd pay an exit fee of £1,250 – losing £250 of their own money and the whole Goverment bonus.

WHAT'S CHANGING?

The Government has now reduced this exit charge to 20%, meaning that (assuming no investment losses) it is just taking back the Government bonus.

In the above example the person withdrawing £5,000 would now pay a £1,000 withdrawal charge, meaning they get back their entire £4,000 initial deposit.

WHEN DOES THIS TAKE EFFECT FROM?

While the Government only announced the change this month, it is backdated to 6 March this year.

Currently the change in the exit charge runs until 5 April 2021. There is some hope it will become a permanent change at that point, but there's no indication from the Government on that yet.

CAN I GET A REFUND IF I HAVE ALREADY WITHDRAWN MONEY?

If you've taken money out of your Lifetime ISA since 6 March this year then you're due a refund, assuming you have paid the 25% exit charge as under the new system you should have only paid 20%. You'll need to contact the company with whom you have your Lifetime ISA so they can process the refund.

If you still have your Lifetime ISA account open, for example you only withdrew some of the money in there and left more in the pot, then your ISA provider will pay the refund back into that account. However, if you withdrew all the money in your Lifetime ISA you'll get the refund back into your bank account.

WHAT HAPPENS IF I TAKE MONEY OUT NOW?

The Government systems haven't quite caught up with its change in policy, which has caused confusion with some Lifetime ISA providers.

Many providers, including AJ Bell Youinvest, will process any withdrawals now with the new 20% exit penalty. Some other providers will continue to process the previous 25% exit charge until HMRC updates its systems to allow for a 20% withdrawal charge, at which point they will help the saver claim their refund.

Skipton Building Society, one of the largest cash Lifetime ISA providers, has chosen to halt all Lifetime ISA withdrawals until it gets more clarity on how it can process the new withdrawal charge. These customers will have to wait to access their money until it decides to start to allow withdrawals again.

SHOULD I BE TAKING MONEY OUT OF MY LIFETIME ISA?

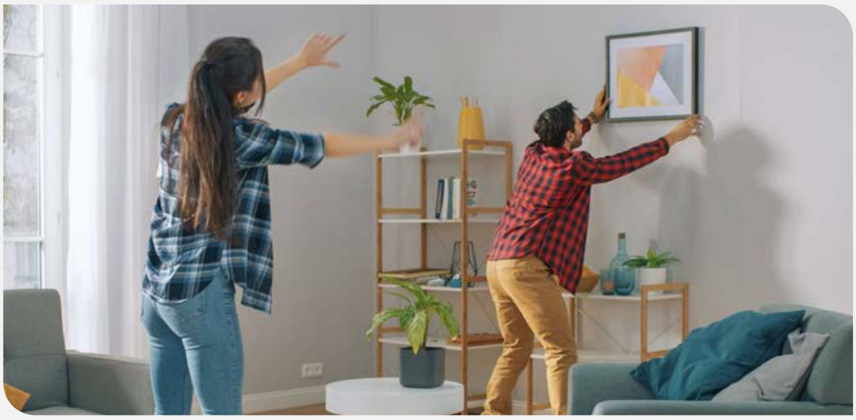
It's understandable that with people being furloughed or losing

their jobs they may need to raid their savings to pay their bills.

If you don't have a large savings pot to fall back on you may feel the need to withdraw money from your Lifetime ISA. However, the Lifetime ISA is intended as a long-term savings product and so should be preserved where possible. If other cash savings are available it may be better to use these first.

If you have an investment Lifetime ISA you also need to think about whether your investments have fallen in value during the recent market turmoil. If they have then you will be locking in losses by selling now, meaning you could be taking out less than you paid in.

For example, if you paid in £4,000 and got a £1,000 Government bonus but your investments have fallen by 10% in value, your current pot will be worth £4,500. If you choose to withdraw the entire pot you'll then pay a 20% exit charge, equating to £900, meaning that you'll actually get back £3,600 which is £400 less than you put in.



HOW DOES THE LIFETIME ISA WORK?

Investors can use the Lifetime ISA to either save for a house deposit or for retirement. The money can only be used to buy your first home or from the age of 60 to help fund your retirement. Any withdrawals for any other reason, other than if you're terminally ill, will incur an exit charge.

Savers can put up to £4,000 into the Lifetime ISA each year, which is topped up by a 25% Government bonus – to a maximum of £1,000 each year.

If you are using it to buy a property, you must be a first-time buyer, the home must cost £450,000 or less and it must be for you to live in (so not a buy-to-let property).

To open a Lifetime ISA you must be between the ages of 18 and 39, and you can carry on paying into the ISA (and getting the Government bonus) until you reach 50.

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

The beginner's guide to picking investment trusts

How to compare trusts and why they have advantages over investment funds

Investment trusts are a great way to get exposure to many different companies and/or bonds in a single product. Each one is run by a fund manager who makes all the investment decisions and there are more than 300 trusts available to UK investors, covering a wide range of sectors, geographies and themes.

Unlike traditional investment funds, investment trusts trade on a stock market which means their share price can change throughout the day. Trusts have other advantages over funds, including the presence of an independent board of directors who check the fund manager is doing what they are meant to.

Funds issue new units when an investor deposits cash and they redeem units when an investor wants to sell, meaning there is a constant flow of money going in and out. In contrast, investment trusts have a fixed number of shares in issue; you buy stock from another investor and sell them back in the market, leaving the fund manager to focus purely on running the portfolio.

Unlike traditional funds, investment trusts are allowed to borrow money to hopefully boost returns from their portfolio by making more investments. That can also work against them when markets are falling. You can find information on the borrowing levels by looking for the 'gearing' figure which is widely published on investment trust factsheets and your investment platform provider's website.

Investment trusts arguably provide better information to investors such as videos, articles and greater commentary in the media. This makes it easier to understand what's going through the mind of the fund manager.

Popular investment trusts include **F&C (FCIT)** which invests in more than 450 individual companies from around the world; **Scottish Mortgage (SMT)** which backs growing companies that are, or have the potential to be, market leaders in their fields; **Finsbury Growth & Income (FGT)** which has stakes in high quality businesses; and **City of London (CTY)** which backs large multinational companies listed on the UK stock market.

USEFUL TOOLS TO HELP YOU FIND CERTAIN TRUSTS

YOUR INVESTMENT PLATFORM provider – namely the company with whom you hold your ISA or SIPP (self-invested personal pension) – should offer a screening service to help you narrow down the choice of investment trusts You should be able to search by:

- Sector
- The company managing the trust
- Historical performance
- Cost
- Some platforms might publish Morningstar fund ratings, so you can search by trusts with high or low scores

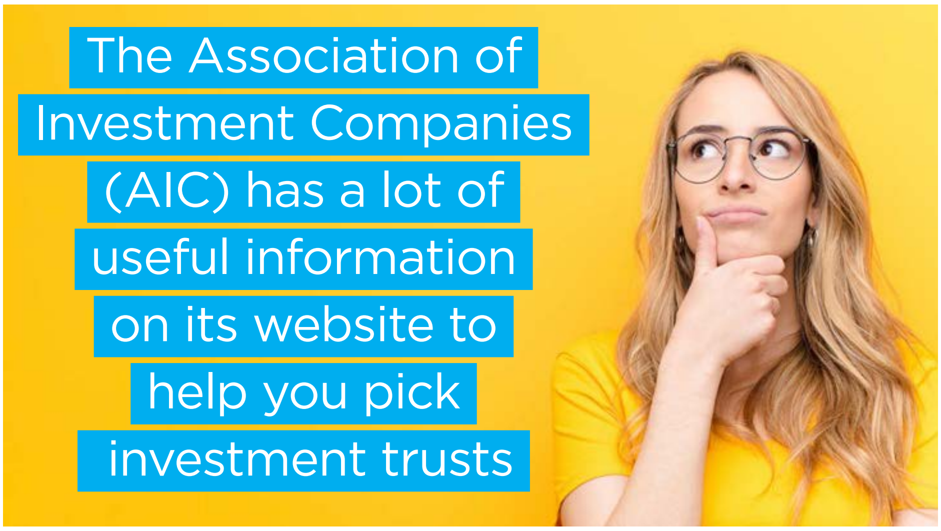
INVESTMENT TRUSTS FOR INCOME

INVESTMENT TRUSTS HAVE historically been popular with people who want to put their money into the markets to obtain an income. Trusts can hold back up to 15% of their annual income in a rainy day pot so they've got some extra money to hand to keep paying dividends during really difficult periods.

A lot of the highest yielding investment trusts will be invested in high risk areas of the market such as debt instruments. These can be too complicated for first-time investors to understand (and also experienced investors) so don't be swayed by the promise of a juicy dividend if you don't understand how this income is generated.

Sometimes it can be better to look for dividend growth rather than yield when selecting investment trusts for income, especially if you are intending to hold the product for a long time. The AIC publishes a list of 'Dividend Heroes' which it defines as trusts that have increased their dividend every single year for at least 20 years in a row.

Trusts with the longest record include City of London at 53 consecutive years of dividend growth, **Bankers Investment Trust (BNKR)** and **Alliance Trust (ATST)** also at 53 years, and **Caledonia Investments (CLDN)** at 52 years.



WHAT TYPE OF TRUST WOULD YOU LIKE?

The Association of Investment Companies (AIC) has a lot of useful information on its website to help you pick investment trusts. For example, you specify whether you want your investments to grow, to generate income for you, or a bit of both. Tick the relevant box and it will show a list of relevant investment trusts.

On the AIC's website you can also search by sector, such as companies in Asia Pacific or North America, businesses helping to protect the environment, property firms or tech stocks.

It will show you charges, dividend yield, how each trust has performed over different periods in the past, and whether you can buy it for more or less than the value of its underlying assets (called net asset value or NAV).

Because their share price is dictated by how much investors are willing to pay/receive to buy or sell respectively, investment trusts can trade at a premium or a discount to NAV.

Trusts with highly-respected fund managers can often trade at a premium because investors are happy to pay a bit extra to access their services. Infrastructure trusts have long traded above the value of their assets because investors are willing to pay a premium to access what are considered by many to be reliable dividends.

Smaller company and private equity-focused investment trusts tend to trade below the value of their underlying assets. That's because the market believes it would be difficult for them to quickly sell everything should the trust be closed down.

Some investment trusts trade in line with value of their underlying assets because they have something called a discount control policy. This is a posh way of saying the trust will buy shares in the market and cancel them if they are trading for less than the value of its assets, or issue new shares if they are trading at a premium.

DISCLAIMER: The author owns shares in Scottish Mortgage

By **Steven Frazer**
News Editor

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